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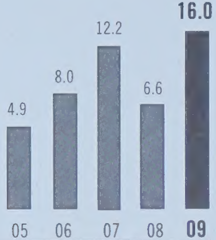
building brand horsepower

ANNUAL REPORT 2009

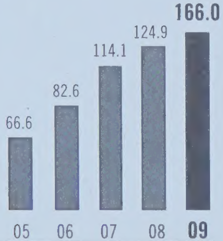
Western
FINANCIAL GROUP

Corporate Overview

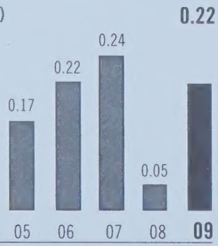
NET INCOME ($M)



TOTAL REVENUE ($M)



EARNINGS PER SHARE ($)



Financial Highlights

(in $ thousands except per share amounts)

	2009	2008
NETWORK		
Commissions and other customer revenue	$ 89,144	$ 75,424
Operating income	25,883	20,715
BANK WEST		
Interest and investment income	$ 25,514	$ 18,596
Net interest and investment income	10,349	6,041
Operating (loss) income	(545)	1,238
WESTERN LIFE ASSURANCE		
Premium and investment income	$ 40,691	$ 32,923
Operating income	5,003	4,228
SECURICAN GENERAL INSURANCE COMPANY		
Premium and investment income	$ 9,077	–
Operating income	2,074	–
OVERALL		
Revenue	$ 166,076	$ 124,855
Net income	15,961	6,548
Earnings per share		
Basic	0.22	0.05
Fully diluted	0.22	0.05

M
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On the cover: The Western Financial Group brand – M over W – represents the Mountains over the Western identity of the company, and is a registered livestock brand in the province of Alberta.

Year-end Snapshot

	2009	2008
Revenue increase	33%	9%
Number of full-time staff	1116	932
Total gross revenue	$166.0 M	$124.9 M
Debt to equity ratio	32%	19%

Key Objectives

	ACTUAL	GOAL
Network – same store revenue increase	4.2%	5% – 8%
Network – operating margin	29%	29%
Bank West – specific provisions	75 BPS	< 50 BPS
Western Life – loss ratio	44.4%	< 45%
Overall net income	$16.0 M	$14.5 – $16.5 M

Contents

"You'll see in this report that our 2009 financial results were a significant improvement over the previous year. We're back."

Jim Dinning, Chairman of the Board
Western Financial Group

Message from the Chairman

DEAR FELLOW SHAREOWNERS:

Welcome to Western Financial Group's 14th annual report to shareowners.

It has been a remarkable year. We entered 2009 as if on a roller coaster plummet. EPS and ROE had taken a hit, the share price erosion was unnerving, and we thought "Will this ever end?" By March, we found it hard to smile when they said, "Flat is the new up." But then we found the bottom. The tsunami seemed to have receded and we got on with our work in typical western style. We had a job to do.

Western acquired Agrifinancial in 2009 and it needed integration with Bank West. We purchased the remaining shares of Winnipeg-based HED Insurance and Risk Services and with it came Canada's leading underwriter of pet health insurance – SecuriCan General Insurance Company. Western Life Assurance had a banner year to accomplish, as did Western's retail Network. You'll see in this report that our 2009 financial results were a significant improvement over the previous year. We're back. To top all that off, we had a re-branding exercise to execute. Our objective was to respectfully retire some 93 long-time household names in Western's communities. We were determined to put one Western face on all of our businesses. We knew our team members would be tested but they rose to the challenge and today, we are one: Western Financial Group. We enter 2010 stronger than ever. We have a financial services offering that no other western-based company can match and we're able to take advantage of opportunities as the economy improves.

One of the keys to our success is governance. The Western Board is fortunate to be backed up by three independent Boards overseeing our subsidiaries' businesses. Each of our Boards regularly review our governance practices with the shareowners' interest front and centre as we focus on accountability and transparency. I want to thank all of our directors for their contributions, especially for their wise counsel during the turbulence of the last 18 months.

Western's Board continues to have strong confidence in Scott Tannas and his leadership team. Their measured approach to managing growth and running our business in these past few months should give all shareowners confidence about Western's future.

We want to acknowledge the contribution made every day by front-line, at-the-counter staff. We thank-you for your commitment through a salary freeze and a re-branding exercise – all in a challenging economy. Each of you make Western the success it is.

Finally, to our fellow shareholders, your continued support of Western through these turbulent times is appreciated. We're determined to keep building Western into the company you believe we can be.

Jim Dinning
Chairman of the Board

"I have felt like the luckiest person in the world (with) the opportunity to live and work in my hometown, High River, and be part of the building of what is becoming a remarkable business success story."

Scott Tannas, President and CEO
Western Financial Group

Message from the President

The theme of this year's report celebrates the successful completion of our efforts to bring our 93 Network retail outlets under one brand – Western. As Chairman Dinning says in his letter, this re-branding exercise was a huge effort for us, with success very much dependant on the front-line folks. For many of us, both at the front line and in management, there was a certain amount of angst about making this final step. We worried that we might alienate customers who were attached to our local brand names, some of which had been present in communities for a century or more. Happily, our customers have responded to the Sunset project in a positive fashion, confirming what they told us in focus group research prior to the change – they care most about the people delivering the service inside our doors, and as long as the name on the door remains an honest reflection of our continuing commitment to each community we serve, they will continue to reward us with their loyalty. So, we enter a new era where the Western Financial Group name and icon will be front and center in communities across the west.

2009 Review

Since the day we founded Western Financial Group in 1996, I have felt like the luckiest person in the world. I have had the opportunity to live and work in my hometown, High River, and be part of the building of what is becoming a remarkable business success story. I echo the sentiment of a well known CEO who says he "tap dances to work every day."

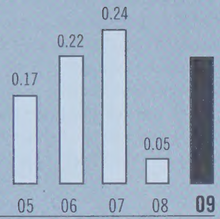
However, I have to say that 2009 was, for me, the most difficult year of my leadership. There were many situations where the right direction or decision was not immediately in evidence. The economic and financial crisis of 2008/09 produced an array of problems and opportunities for us, and the stakes always seemed to be high. I am grateful to the Board of Western Financial Group and its subsidiary boards for providing outstanding support, advice and direction. I am also grateful to my co-workers, 1300+ total women and men who worked extraordinarily hard this year, unwavering in their commitment to deliver the vital products and services to customers in the west and across Canada. Together, we made decisions and took actions that steered our company safely through 2009, and to a target financial result that 12 months ago seemed optimistic to say the least.

In the pages that follow, we highlight each of our various business units, including their successes and challenges in 2009, and why we think we are on the brink of further success in 2010. There's also over 90 (!) pages of detailed financial information on our company. But before you read on to the next section, I want to provide you with some comments on each of our main business units and their performance in 2009:

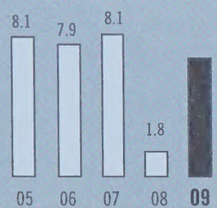
Network

Lana Wood and her team again delivered a solid result in a very challenging economic climate. Cost control became critically important for the Network in 2009, in an environment where many customers were cutting back, or worse, closing down and moving away. Nonetheless, our Network continued to gain market share, as it has over the past number of years.

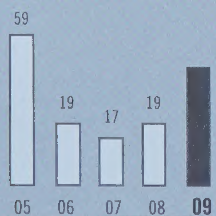
EARNINGS PER SHARE ($) 0.22



RETURN ON EQUITY (ROE) (%) 7.0



DEBT ON EQUITY RATIO (%) 32



Message from the President continued

Here's a chart that demonstrates how our Network's organic growth has performed exceptionally well relative to the industry over the past three years:

	2007	2008	2009
Industry Growth	4.9%	3.3%	3.2%
Network Same Store Growth	7.7%	8.9%	4.2%

Another way we are growing market share is through acquisition, and this year, we marked two important milestones in the expansion of the Network's reach. In January, we acquired two offices in Nanaimo, B.C., establishing a beachhead on Vancouver Island. In October, we moved to full ownership of HED, the leading provider of association and buying group insurance across Canada. This Winnipeg headquartered business will operate as a stand-alone unit, under the leadership of Grant Ostir, who will report to Network CEO Lana Wood. Grant and his team are successfully growing their influence on the national insurance scene with their innovative approach to risk management for a variety of industry and government association members.

Bank West

2009 was again a year of mixed blessings for Bank West. Over the course of the year, the Bank worked to integrate Agrifinancial and its people and products, and enjoyed success toward widening the interest spread. Also, we found some new market niches on which we can build for the future. However, the economic downturn produced significant headwinds for Bank West, and as a result we fell well short of our financial goals for 2009. Their credit portfolio performance in the final quarter robbed them of a modest Q3 year to date profit, however our leading indicators of credit quality show that, along with other Canadian banks, we have turned the corner. As we begin 2010, we remain focused on steering Bank West toward sustainable profitability.

Western Life

Dominique Grégoire and the team at Western Life had a banner year, with strong growth in revenue, matched by significant growth in profits. With last years equity portfolio write-downs behind them, the Western Life team earned the biggest profit in their 40+ year history. This is a terrific achievement, and is even sweeter as it comes in part because of the power of cross sales effort from within the Western Financial Group family, who now account for more than 20 percent of Western Life's sales. Thanks to a very active and creative marketing effort in 2009, Western Life is set to grow significantly again this year.

SecuriCan General Insurance Company

Since becoming a minority investor four years ago, we have watched this company grow revenues and profits at an incredible rate, as customers clamour for their unique pet health insurance products. Randy Valpy and his 113 person army of believers have built SecuriCan into a best in class specialty insurance company. In October of this year, we were given the chance to move to full ownership, and we are glad to welcome SecuriCan to the Western Financial Group family. We feel certain that the pet health insurance market will grow for many years to come as consumer awareness grows, and we believe SecuriCan is positioned to maintain its leading market share of the Canadian market.

Strategic partnership portfolio

Our partnership in Falkins Insurance, with 11 offices in southeast B.C., produced a terrific return for us in 2009, as did our partnership with Intercity Group in Prince Rupert, B.C. In both cases we are partnered with folks who are strong operators who are able to produce results that are in line with our wholly owned locations.

Our partnership with the Hill family in Saskatchewan had an exceptional year both in organic growth in revenue and operating profit. At the same time they completed a significant brand enhancement campaign, undertook a smooth leadership transition, and made a large acquisition, all of which has cemented the Harvard Western Insurance operation as the market leader in Regina.

Finally, our long time partners at Jennings Capital got quickly back on track in 2009, delivering positive income after the "annus horribilis" of 2008 in the capital markets business. The firm has its eyes firmly fixed on the horizon, as they navigate the still potentially stormy markets ahead.

Outlook for 2010

As you will see in the box on the opposite page, we have set targets for 2010 that represent accelerating revenue growth combined with careful cost control. We remain cautious in our targets as we do not yet see consistent signs of recovery in many of our communities in the west, and lines of business across the country. For us, Bank West remains the piece of our business where we have the greatest sensitivity for positive or negative influence on overall profitability at Western Financial Group. With over $70-million invested in the Bank, even a small improvement in our profit picture there can make a big difference to our EPS. So, as we work to deliver solid results across our insurance businesses, we will be spending extra time and attention to Bank West, and like many of our farm clients, we are resolved "this year will be better."

In closing, I would like to thank all stakeholders for their loyalty and support this past year. Our company has faced many tests and we have much to be proud of. We have demonstrated to ourselves and others that Western Financial Group and its people possess the same spirit and resolve that helped build the west. Our dream of becoming the strongest financial company in the west by 2020 remains intact, and the skills we require to achieve our goal were certainly strengthened in 2009. I look forward to reporting our progress in 2010, as I "tap dance to work" here in High River.

Scott A. Tannas
President and CEO

2010 Objectives

NETWORK SAME STORE SALES	4% – 7%
NETWORK OPERATING MARGIN	28%
BANK WEST SPECIFIC PROVISIONS	< 75bps
WESTERN LIFE LOSS RATIO	< 45%
WESTERN FINANCIAL INSURANCE LOSS RATIO	< 55%
OVERALL NET INCOME	$18.5 M – $20.0 M

"In July 2009, we launched and executed a strategy to rebrand and change all 93 office names to "Western Financial Group"... Our strategy was to keep it simple; unite under one name, one brand and one team."

Lana Wood, President and CEO
Western Financial Group (Network) Inc.

The Network

The consumer retail sales of Western Financial Group are focused through the Network which operates 93 offices in over 85 communities in western Canada. The core business in these retail community offices is the sale of auto, home, business and farm insurance. However, other sales have increased as we continue to cross-sell a variety of insurance products such as life and financial services. These offices have typically been in their communities for generations, serving the insurance needs of the area and growing in size as local business and residential areas develop. Customer retention levels have remained high as business transactions are generally based on relationships and strong levels of local service. This relationship-based service has provided us with a platform to produce long-term profitable growth of our core and non-core products by delivering value to our customers, communities and shareholders.

The Sunset project

In July 2009, we launched and executed a strategy to rebrand and change all 93 office names to "Western Financial Group." We called this project "Sunset." Our strategy was to keep it simple; unite under one name, one brand and one team.

Our development as a company has been propelled by the key acquisitions we have made in the past 13 years. As we invested into our core business and acquired these offices, we continued to operate under their existing names. We discovered operating offices under a wide variety of names led to some consumer and supplier confusion. After several focus groups, we found it was the exceptional customer service and relationships our front-line sales teams create that led to overall success in our communities – not the local name.

In a market that continues to be fragmented, we completed a company-wide integration creating one unified brand – Western Financial Group. Customer reaction following the completion of our project was surveyed and we are pleased to report "Sunset" was a success. Over the past year, our dedicated employees worked hard to ensure this success and we are extremely proud of their commitment and contributions.

Preparing for the worst

We were aware that 2009 would bring economic uncertainty and we anticipated it would not be business as usual. By the end of 2008 we had instituted several measures to prepare us for the downturn.

- We instituted a salary and hiring freeze across the system for 2009.
- We instituted a heightened focus on expense control. This resulted in a number of changes, including holding our annual leadership conference through our satellite TV broadcast facility – West TV – instead of in person.
- We also changed the format of our annual September management meeting and held regional meetings rather than one meeting in High River. The cost saving was great for 2009, however, we would not want this established as a permanent change. The networking and interaction at an annual face-to-face meeting provides our leaders a forum to collaborate on evolving topics of company and industry wide significance.

- Meetings were focused on revenue and bringing more value to the customer experience. Realizing many customers would be faced with severe economic challenges, we focused on more risk management and creative ways to reduce their insurance premiums while still offering them the right coverage. Our goal was to retain our customers through the downturn.

- We focused on controlling receivables as well as offering payment plans to help our customers manage their credit obligations for premiums.

2009

During the first and second quarters our revenues held reasonably well and our expenses were down. However, as the year progressed we started to feel the impact as the economy in many areas worsened. In northern British Columbia, the effects started early. The oil and gas sector in Fort Nelson, Fort St. John and Dawson Creek were impacted, as was the forestry industry throughout the province of B.C., particularly in Williams Lake and the corridor between Prince George and Burns Lake where lumber mills and logging operations shut down. Many clients downsized and continued to operate at reduced capacity. Our brokers worked with these clients assisting them in lowering the costs of insurance while still providing appropriate coverage. Likewise in northern Alberta, the economy was also hit harder than in other areas in the west. This contributed to declines in business opportunities and revenues for many customers, which in turn resulted in a decreased need for insurance as customers sold or parked equipment. Many of the mobile workforce that had arrived from other parts of the country left for opportunities elsewhere. Additionally, in some parts of central and northern Alberta, drought conditions further contributed to the economic downturn. Through maximizing discounts and actively searching for competitive rate and coverage options, the focus of Western Financial Group employees continued to be to ensure that customers' assets and lives were adequately protected at a competitive price. For much of the rest of British Columbia, southern Alberta, Saskatchewan and Manitoba, the effects of the economy were more moderate toward the third and fourth quarters.

Insurance companies started to rectify pricing due to their underwriting losses in personal property insurance. This resulted in rate increases for some customers which is a double edged sword for brokers – we see an increase in commission on the policy but often have to work even harder to keep the business by doing more price comparisons. By year-end, most insurers had implemented price increases and we saw more consistency amongst our personal lines insurers. On the commercial side, the industry stayed in a 'soft' highly competitive environment particularly on larger accounts. An interesting result of this continuing soft market on the commercial side and a firming up of the rates on the personal side, is after many years of realizing a 55 percent to 45 percent split in our revenues of commercial versus personal, we moved to an almost even 50/50 split in 2009.

Government auto continues to be a major source of revenue and opportunity for us. We saw a slight increase in auto rates in Alberta and a lift in rates in Manitoba. A new Manitoba Public Insurance (MPI) "commission/fee schedule" was put in place in late 2008 resulting in a ballooning of income for the broker for 2008 and 2009. During the next two years most MPI auto policies as well as all driver licenses will have been rolled into a five-year renewal cycle resulting in the client technically only having to visit their broker once in five years.

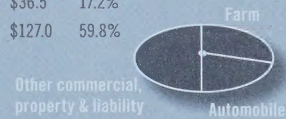
INSURANCE SALES BY PROVINCE ($M)

(Incl. all auto for Alberta only)

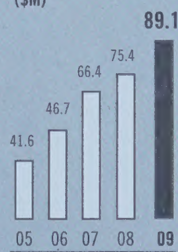
Alberta	$246.1	66.8%
British Columbia	$67.6	17.1%
Saskatchewan	$29.8	7.5%
Manitoba	$33.9	8.6%

COMMERCIAL INSURANCE SALES ($M)

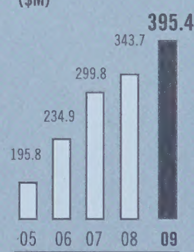
Automobile	$49.0	23.0%
Farm	$36.5	17.2%
Other commercial property & liability	$127.0	59.8%



NETWORK REVENUES ($M)

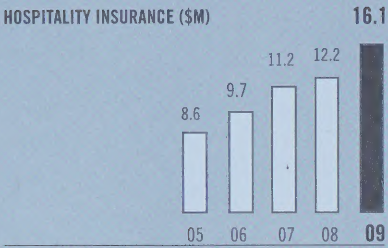


NETWORK PREMIUM SALES ($M)

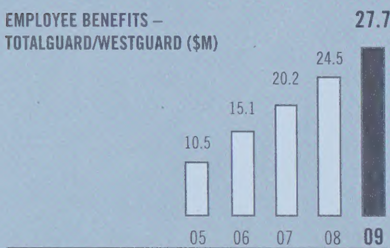


HED Operations

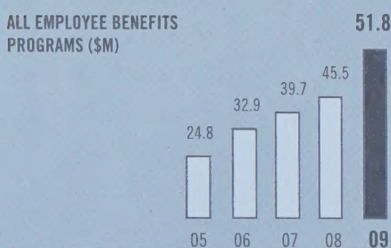
HOSPITALITY INSURANCE ($M)



EMPLOYEE BENEFITS – TOTALGUARD/WESTGUARD ($M)



ALL EMPLOYEE BENEFITS PROGRAMS ($M)



On the insurance supplier side, we did not see any consolidations of insurance companies, which had been anticipated by the industry. The selection of companies and choices for our brokers remained constant. One of our greatest strengths, as a company, is the quality of the relationships we have with our Partner Insurers and as a result we are able to meet the needs of our customers in many diverse communities.

HED – soon to be Group Insurance Solutions

We reported last year how excited we were to have HED Insurance and Risk Services on board. As of October 1, 2009, we acquired 100 percent of the company. This is an integral part of our long-term strategy to build and grow our national and regional commercial and employee benefits insurance programs. In 2009, HED continued to expand their programs, focusing on independent Canadian businesses which are aligned with national associations and buying groups. The emphasis of these programs is on alternative risk transfer methods.

The Hospitality Insurance program was expanded into British Columbia, which generated over $3-million of new business premium volume. At the same time, the company signed an agreement with the Ontario Hotel Restaurant and Motel Association to expand the program into Ontario. This commercial insurance program now operates from Ontario to British Columbia insuring 1,016 locations with over $15.4-million in annualized premium volume. While 2009 saw major steps in the program, the outlook for 2010 will continue to see further growth of the Hospitality Insurance Program in British Columbia and Ontario, in addition to looking for further opportunities to implement new program business for national associations and buying groups.

The Employee Benefits programs at HED also saw significant growth. We generated over $8.24-million in total new business premiums from organic sales growth. The TotalGUARD and WestGUARD programs – employee benefit programs specifically designed for independent Canadian businesses – hit annualized premium volume of almost $28-million. Both programs offer health, dental, life insurance, accidental death and dismemberment, long and short term disability, and out-of-country travel. We will be rebranding the HED name to "Western Financial Group Insurance Solutions" over the course of 2010.

Successes in 2009

While the economy was clearly our challenge in 2009, we had a number of successes which helped offset the economy's negative impacts on our business.

- We continued to see steady organic growth in our policy counts, a trend that is consistently ahead of the industry average.
- With the acquisition of HED, we increased our overall market share and now have the foundation to build our program focus.
- We saw stability in our employee work force which benefits our customers in the ability to work with more experienced staff, and us in our costs of training.
- We engaged West TV for regular training – with excellent reports from staff. West TV is the most extensive use of satellite real time training in our industry.

- We saw the beginnings of real growth in our financial services business, a huge step forward for our Network and for the Company. We now have a great, enthusiastic team of financial services representatives throughout all regions.

We continued our focus on ensuring that appropriate resources were being invested into the Financial Services component of the Network's offerings, particularly on our licensed life and financial service agents, and 2009 was the year this investment showed meaningful results. Improved product and sales training for retail staff was the cornerstone of the changes, and investing in our staff showed immediate results through enhanced skill levels, improved confidence and higher revenue generation earlier in their development. We also focused on educating and encouraging all retail staff in the offices about the importance of cross-selling financial products and services into our existing customer base. By utilizing technology such as West TV and webinar broadcasts, in-branch presentations and Bootcamp, we have reinforced the message and clarified the value we add when offering a broader range of protection to our customers.

In addition to the educational component, streamlined operational procedures added to our positive outcome. Defining and documenting correct processes and procedures is allowing us to maintain consistent administrative practices across the Network. The Financial Services component in the Network can now support new product offerings, and has a broader range of channels to offer products and services to our customers. As we continue to grow our volumes, relationships with our life insurance companies and deposit institution partners have also strengthened. 2010 should continue to see an increasing percentage of the Network's overall revenue being derived from Financial Services.

Looking to 2010

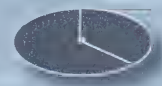
Our results over the next year will be influenced by the economy, particularly in those areas where our customers were hardest hit. But we are cautiously optimistic for 2010, due to a lot of the work that was done by our employees over 2009.

The changes we made to re-focus on business fundamentals – providing great value products and services, controlling expenses, and collecting our premiums – will also strengthen our position going forward. We focus on our Guarantee of Value, it's what defines our value to our customer – well trained, local advisers offering a wide variety of competitive products and services from the best companies in Canada who consult and review coverage, making sure products remain competitive. We stand behind those products with a Fairness Guarantee on claims. We believe our customers value these services in particular, so we focus on what is important to them.

We continue to see steady organic growth in our policy counts. We finalized the acquisition of HED and this will further our ability to capitalize on the power of our extensive retail network. We saw stability in our employee work force, which benefits both our customers in the ability to work with more experienced staff, and us in lowering our training cost requirements. We engaged West TV for regular training – excellent reports from staff. We saw the beginnings of the real growth in our financial services business, a huge step forward for our Network and for the Company. We also continue to expand our business on insurance policy premium finance with Bank West, which shows steady growth and good synergies between our companies. Single brand and name will also be a powerful factor to expand awareness and drive revenue production. In summary, the changes and developments we focused on in 2009 have positioned us well to move forward in 2010.

PERSONAL INSURANCE SALES ($M)

Automobile	$104.4	57%
Home/other	$78.5	43%



COMMISSION INCOME GOVERNMENT AUTO ($M)

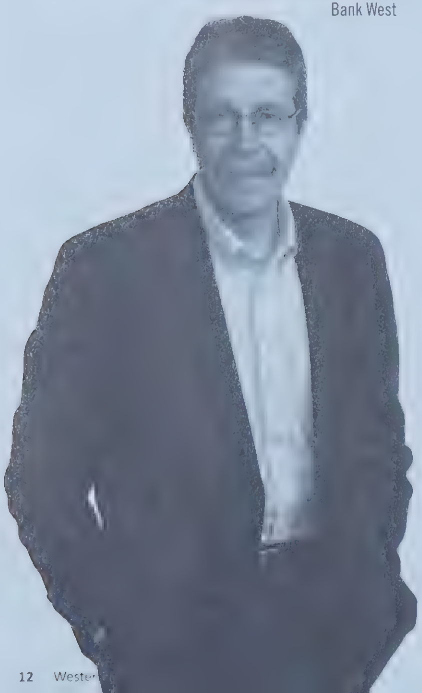
British Columbia	$10.0	76.9%
Saskatchewan	$1.4	10.8%
Manitoba	$1.6	12.3%

Fast Facts

2009	2008	
305,000	296,000	Approx Network customer count
826	805	# Network f/t employees
94	90	# owned offices
17	21	# affiliated offices
1.1	3.5	% growth same store customer account
4.2	8.9	% growth same store revenue
15.0	14.7	% growth total premiums
88	88	% retention
2.41	2.31	# products per customer account
154	138	# HED f/t employees
10	14.5	% HED lapse ratio/customer policies

"We stuck to our niche driven loan portfolios because this was a business we had entered six years ago, and by now, we know it well. It's also a business where the margins are higher than for instance the over-crowded and highly competitive residential mortgage business."

Bruce Ratzlaff, President and CEO
Bank West



Bank West

2009 was a year marked by the worst global financial crisis seen for generations. It was a year where we saw some of the world's major financial institutions lose billions of dollars in a melt-down, with some institutions that had been pillars of fiscal responsibility five years earlier, declaring bankruptcy.

Fortunately, the Canadian banks were not impacted to the same degree as other global players. Historically, banks in Canada have been held to a higher standard, a tradition of conservatism that proved invaluable during the recent financial market's stressors. At Bank West, while we follow the Canadian tradition of conservative lending and operating practices, the economic downturn particularly in certain sectors did impact our results over the past year but as we close 2009 we are optimistic about our future prospects and look to strong growth in volume and profit. As a 'new' seven-year-old bank we have grown by following prudent and responsible principles in our lending practices, a reality that will not change going forward. Our growth rate has been steady but moderate while we've resisted the temptation to accelerate growth through lowering our criteria for loan approvals and thereby taking on more risk. In retrospect we believe that our controls on growth have served us well, and while we certainly felt the impact of credit market challenges, we have contained these at Bank West in a way appropriate to our scale. As we head into 2010, our Balance Sheet has never been stronger.

Getting prepared

As we saw the sudden downturn in the economy, we took steps in the fourth quarter of 2008 that helped us when the wave hit western Canada. We made what for us were some dramatic changes. We immediately tightened our loan writing criteria for personal loans and withdrew from a few markets we viewed as being at higher risk. We increased our margins by a modest amount across the board and we committed more resources to our collections department as well to manage our non-performing loans. These changes indeed helped us throughout 2009 and will continue.

What we didn't change

But we didn't change the things we felt we were doing right. We stuck to our niche driven loan portfolios because this was a business we had entered six years ago, and by now, we know it well. It's also a business where the margins are higher than for instance the over-crowded and highly competitive residential mortgage business. We stuck to lower volume but higher quality underwriting of the business we had coming in, and we carefully managed our loan renewals so that we would realize a fair yield for ourselves, and our customer would benefit from fair terms. We regularly reviewed our loan portfolio so that we could minimize our overall risk, off-loading some marginal loans that offer low margins and higher exposure to the challenged Canadian economy. As careful as we were, our loan base is limited in breadth and we saw an increase in our non-performing loans.

A timely and strategic acquisition

In early 2009, Bank West completed the acquisition of Agrifinancial Inc., based in Winnipeg. This acquisition not only provided Bank West with an immediate and credible entry into the agri-lending markets of western Canada, it came with a team of experienced lenders and business operations staff that continued to manage their business with clarity and passion. Through this acquisition, two prominent product brands entered the portfolio of Bank West, Agrifinance – an agriculture equipment loans/leases product, and AgriCard – a credit card accessed line-of-credit that serves the operat-

ing credit needs of Canadian farmers. These two products enjoy a 20+ year reputation in the agricultural community and we're proud to align Bank West with these proven niche products. In the AgriCard platform, Bank West now has a recognized and unique finance product that has been embraced by farmers, equipment dealers and crop input merchants alike. We look to AgriCard and Agrifinance as growth drivers for Bank West going forward, and so well aligned with the "Western" tradition of both Bank West and Western Financial Group.

Lessons learned

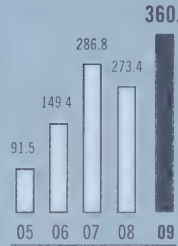
There is no question as a small and growing bank we learned some lessons, which we will be applying as we emerge into a more robust economy ahead. First, we were lean operationally going into 2009. We are even more efficient coming out of the year, and we will continue to improve on our efficiency. We expect 2010 to be a year where our loan portfolio performs well, and we will keep our capacity at the 'full' mark so that we do not have idle capital on our Balance Sheet. We feel there will be strong demand from the market for the loan types we are looking for which will allow us to onboard higher quality loans with higher margins as well. We see positive growth in new markets through several third-party originator relationships we have developed with significant and experienced industry niche players. These are proven, positive business models that we are funding loans through, and our early results with these companies in 2009 have been better than expected, which will continue in 2010. We will gradually add niche oriented diversification in the future, but these steps will be taken with our usual conservative and careful nature to guide us.

We are also looking to significant growth in our AgriCard and Agrifinance products. While the agricultural sector also experienced challenges in 2009, it generally out-performed the overall economy within our market footprint, and we had a profitable year with both AgriCard and Agrifinance product lines. These brands bring great strength to Bank West in the ag-lending sector, and we will be integrating the two brands together so that Bank West is much more prominent over time.

Looking to 2010

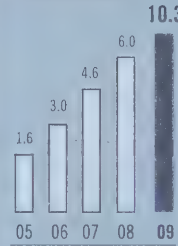
The forgoing comments provide some preview into our plans for 2010. Our specific plans include a continued drive to develop growing and profitable niche markets and channels within which to deploy our capacity and grow our profits and loan portfolio. We will continue to specialize and "go deep" rather than "wide," in our approach to lending opportunities offered to us daily – we will say yes to quality deals and decline where the fundamentals don't support our goals. We are about quality business and long-term perspectives where all stakeholders will benefit through the years ahead as we develop customer and channel partner relationships. Alongside this orientation, will be an appetite for and an intention to grow – but not at the expense of prudent risk management and control. While credit markets have eased some, we believe that a great amount of opportunity confronts us as the demand side of credit markets still exceeds the supply side of the equation giving us a scenario for profitable growth on all levels. In addition, we will add to our human resource and systems depth – foundational assets to support our drive for quality growth. Needless to say, we're optimistic and enthusiastic about 2010 and focused with a plan that we're confident will prove rewarding both in the coming year and over the long term.

LOAN PORTFOLIO ($M)



DEPOSIT PORTFOLIO ($M)

NET INTEREST INCOME ($M)
(before provisions)



DISTRIBUTION OF LOANS
(December 31,2009)

Premium finance	$29.7	8%
Farm & comm. mortgages	$27.9	8%
Residential mortgages	$32.1	9%
Other loans & leases	$78.5	22%
Dealer finance	$105.6	29%
AgriCard	$34.9	10%
Agri loans & lease	$51.8	14%

Fast Facts

2009	2008	
16	20	#f/t employees in High River
38	-	#f/t employees in Winnipeg
37.2	34.7	% growth in total revenues
71.3	31.4	% net interest income & investment growth (before provisions)
2.0	1.2	% gross impaired loans (% of total loans)

> "Congratulations to the Western Life team and a special thank-you to all our business partners for believing in us and helping us achieve this 2011 goal early...attaining $50-million in gross premiums by the year ending 2009."

Dominique Grégoire, President and CEO
Western Life

Western Life

Headquartered in High River, Alberta, Western Life Assurance Company maintains its underwriting, administration, IT and claims departments in the operations center in Winnipeg, MB. The company which has been in business in Canada for 45 years, was acquired by Western Financial Group on March 1, 2005. Our products include term life and critical illness insurance, group benefits covering health, dental, accidental death and dismemberment, long and short-term disability and out-of-country travel insurance, as well as creditor insurance and add-on products on various programs. Western Life insures Canadians from coast-to-coast.

2009 review

The deepening of the Canadian economic crisis continued in the early part of 2009 indicating we would be faced with a difficult year with the Canadian economy being a major factor governing our business. As a poor economy also directly affects results in the life insurance industry, we expected to be impacted in three areas – a decline in premiums, an increase in claims and a further decline in our investment portfolio. In order to prepare ourselves as much as possible, we implemented several measures in the last quarter of 2008 and placed further controls in the first quarter of 2009.

We had made the decision among all business units, including Western Life, that we would implement a salary freeze but that we would do our utmost to retain all employees – which we were successful in accomplishing. We also instituted more direct accountability on both revenues and expenses and we re-aligned our investment portfolio to significantly reduce our exposure to the equity market, making us less vulnerable to the volatility of the markets.

2009 was a transition year with a new president in place, implementing significant new agreements, getting ready for International Financial Reporting Standards (IFRS), planning a human resources strategy to catch up with the recent growth and to plan succession as well as planning a branding strategy.

Despite all of the above, Western Life remained strong and continued to grow. By the end of the year, we saw an 18 percent increase in our gross revenues, including a 9.2 percent increase in premiums and a nice recovery of the market values of our investment portfolio. Despite the increase of 9.4 percent in our loss ratio, we realized a net income of $4-million, which is 300 percent over 2008 and 24 percent over our budgeted net income for 2009, realizing a return on equity of 16 percent.

The significant factors which contributed to the growth in our premiums were:

- We were extremely pleased to see strong growth in the number of @pprove policies issued by the Network, particularly in the fourth quarter;
- The integration of the block of Group Benefits business from Hayhurst Elias Dudeck (HED) in Winnipeg effectively more than doubled our number of Group policies and certificates. The integration of this block of group business, which includes life, short and long-term disability, and out-of-country travel, was made successfully from all aspects;
- Despite the difficult economy, some of our existing partners outperformed during 2009 almost doubling their production with add-on products.

A significant accomplishment

Back in 2006, Western Life set up a "big, hairy audacious goal" of attaining $50-million in gross premiums by the year ending 2011. This goal was achieved in 2009, two years early, when we closed the year with $51.6-million of gross premiums. Congratulations to the Western Life team and a special thank-you to all our business partners for believing in us and helping us achieve this goal early.

Branding

We also completed an important step in focusing on our brand and core message for Western Life. Along with the other business units of Western Financial Group, we completed our logo change during the year to reflect our position as part of the group. However, there was a further step to take, clarifying our core benefits to our customers and our value proposition, in order to ensure we exactly identified what was making us successful and how we were differentiating ourselves from our competitors.

Going through that exercise confirmed to us that our approach of working closely with partners such as brokers, third-party administrators and distribution channels, to develop unique products was the key to our success. This was proven in 2009 by delivering the *life*Foundation to the Network and Western Financial Group.

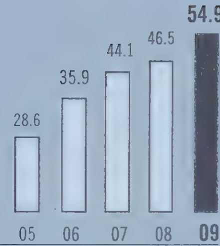
The $100,000 *life*Foundation program – working with other business units

2009 saw a great example of a partnership between Western Life, the Network and Western Financial Group with the launch of a revolutionary five-year term product based on simplified underwriting questions. This new product is extremely competitive, blending the cost characteristics of term insurance and long-term affordability of whole life insurance. It was first offered to Western Financial Group staff as a test program, and this represented a first for us.

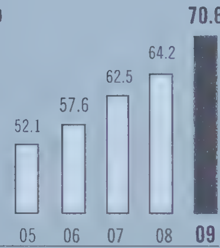
- It was put together "ground up" as a life product designed specifically for Western customers.
- It represents value that is obviously well ahead of the overall market for this product.
- It was tested as a program to Western staff first, resulting in a participation rate of over 45 percent, well above our expectations.
- It was direct marketed to the Network customers on a test basis in 2009 to start the advertising and marketing and will revert back to our Financial Services representatives on renewal.
- It is designed to be built upon, the foundation of a life offering to customers and consumers.

As test mailings were conducted in the fourth quarter, we do not have full results, however, early results indicate we are ahead of projections on this product.

GROSS REVENUE ($M)

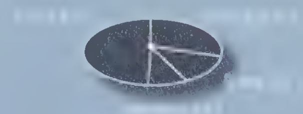


INVESTMENT PORTFOLIO AT FAIR VALUE ($M)



GROSS PREMIUMS BY PRODUCT ($M)

Group A&S	$30.4	58.8%
Individual A&S	$1.6	3.0%
Individual life	$10.5	20.4%
Group life	$9.2	17.7%



GROSS PREMIUMS BY PROVINCE ($M)

Manitoba	$4.1	8%
British Columbia	$6.3	12.2%
Saskatchewan	$3.9	7.6%
Ontario	$19.3	37.3%
Alberta	$12.9	25.1%
Other	$5.1	9.8%

Fast Facts

2009	2008	
[illegible]	[illegible]	# f/t employees in High River
[illegible]	26	# f/t employees in Winnipeg
[illegible]	1.60	Individual life insurance in force ($B)
[illegible]	14,259	# group certificates in force
[illegible]	145,886	# group health & dental claims processed
[illegible]	136	# life insurance claims processed
[illegible]	25	# disability insurance claims processed
167	143	# critical illness claims processed
[illegible]	506	# new @pprove policies sold by Network

From tiny acorns – a benefit that works

When a consumer becomes a customer of Western Financial Group's property and casualty insurance network, they receive a number of benefits, one of which is a $1,000 Life Insurance policy, underwritten by Western Life, which they receive at no cost to them. There are few restrictions on it, and it applies to the insured and their spouse. It is designed as a small "thank-you" for their business, and also as an opportunity to ask further about their life insurance needs.

Many customers forget they even have it. However, to date we have paid out a grand total of $410,000 on this small policy to customers, at a time when they have experienced a sad event. Many have let us know they greatly appreciate the unexpected payment. It's a program that may seem to be a small amount, but has helped out a large number of network customers, and is viewed as a real benefit by our customers, and as an opportunity by us.

The following is a breakdown of $1,000 Life Insurance benefit payouts by year:

- 2005 - $21,000
- 2006 - $88,000
- 2007 - $67,000
- 2008 - $114,000
- 2009 - $105,000

Human resources

Western Life has been experiencing significant growth in premiums for the past four years, while reducing our expense ratio. In order to keep up our outstanding customer service, we have created eight new positions to be filled in 2010. With a significant increase in business, the claims department has been the most affected, and we will be expanding the department by hiring additional claims adjusters and a Claims Manager to continue to provide our customers with quality service. Despite the significant additional work load, our claims administrators and support staff have managed to maintain a very high level of service in 2009. The fact that we continue to expand programs with existing partners is a compliment to our customer service.

Focus for 2010

Having taken cost cutting and efficiency re-alignment measures at the beginning of the year, 2009 did not impact the company as much as we had anticipated. Consequently, Western Life is going into 2010 stronger and better than ever. Western Life has survived the economic crisis and is well positioned to face another downturn in the economy, an expanding economy or a flat economy. Our focus in 2010 will be on growing our programs with our existing partners, expanding new markets and distribution channels in the west, hiring new staff required to maintain our service, and re-engineering business processes to be even more efficient.

Western Financial Group – Corporate and Shared Services

Western Financial Group has its Head Office in High River, Alberta and provides overall direction and long-term strategy to the group of companies as well as significant operational services in finance and compliance, acquisitions, communications, business technology, human resources, investor and media relations and administration. The core business of the company is the retail sale of home, auto, business and farm insurance in the more than 85 communities in which we operate. Many of our locations have been in those communities for generations with deep roots of trust and strong relationships. Through those relationships, we are able to also offer our customers a growing number of top quality life and financial services products, some of which are provided from within our 'family of companies.'

However, we support our core business, as well as our life insurance and banking units with a number of important centralized services which fill central roles. These shared services bring high standards of quality and procedures to the company as a whole in daily operations, as well as keeping focused on short, mid and long-term corporate goals to provide continuous improvements and keep us at the forefront of change and development.

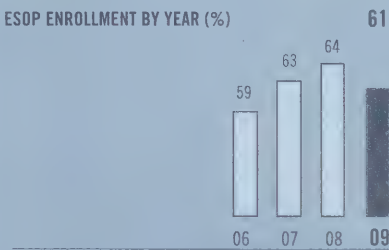
Services provided

Our finance and compliance departments ensure the highest levels of procedure, compliance and internal auditing to both the corporate public company as well as the business units. Many of these common functions, which would normally be duplicated by each business unit, are centralized to provide increased cost efficiencies, a high standard level of quality, consistency over the long-term, and a focus on the revenue production areas of our business units. Common services are provided in accounts payable, treasury, communications and advertising, human resources, business technology and training. In some cases, similar functions are also found in larger offices in the company where real time delivery is important, and they increase the expertise brought to our overall service teams. Learning and Development (training) services, too, are generally centralized in Head Office, which provides boot camp training to all "new recruits" and utilizes the largest training broadcast service of its kind in our industry – West TV – providing real time video and audio from our central broadcasting studio, via satellite to all the Network and business unit offices in Canada. In addition to the corporate teams, Head Office is also home to Bank West, the administration staff of the Network and the finance and marketing staff of Western Life.

Developments for the long-term

2009 saw the launch of our new company Compensation Plan. In 2007, we engaged a prominent consulting company to conduct a complete review of our salaries and benefits plan. The results were carefully considered, and we announced the changes to our policies in January 2009. We believe that staff are pleased with the new changes, which will see some increases in 'soft' items in employee benefits, and make our compensation competitive through the west.

ESOP ENROLLMENT BY YEAR (%)



"In the current economic environment, few industries are seeing double-digit growth year over year, but that's what the Pet Health industry in North America is now experiencing. SecuriCan, is optimized to capitalize on this opportunity."

Randy Valpy, President and CEO
SecuriCan General Insurance Company

SecuriCan General Insurance Company

SecuriCan General Insurance Company was acquired by Western Financial Group as an important part of the Hayhurst Elias Dudek Inc. (HED) acquisition on October 1st, 2009. The company specializes in a unique product – dog and cat health insurance – that is retailed on-line, through professional veterinary clinics, breeders, or via animal adoption agencies such as humane societies. Pet health insurance covers the cost of veterinary medical fees, and is presently marketed under its own private label brand Petsecure, as well as under a number of large Canadian brand names. While traditional insurance executives might be skeptical of the concept of pet health insurance, the industry has a seventy year history world-wide, with market penetration reaching as high as 43 percent of pets in Sweden and 23 percent in the U.K., and growing acceptance, primarily in urban markets across North America.

Market Position

In the current economic environment, there are very few industries that are seeing double-digit growth year over year, but that's what the North American Pet Health Insurance (PHI) industry is now experiencing. Sales of pet health insurance in Canada alone are conservatively expected to reach $80-million by year-end, and by all indicators, SecuriCan has ideally positioned itself to take advantage of years of early investment in consumer education and brand-awareness.

SecuriCan is the oldest and largest pet insurance provider in Canada, which is still a relatively immature market. With only about 1 percent of pets currently having coverage, there exists significant opportunities for continued growth. Over the past four years, Canada has grown its share of the North American PHI market from 9 percent to 15 percent, reflecting the impact of SecuriCan's own rapid growth.

The only one of its kind in Canada, SecuriCan's unique organization has been optimally structured with the in-house expertise and capabilities to design, write, market, deliver and manage successful and profitable PHI products; in effect creating new and robust lines of business for suitable white label partners who have proven national brand appeal. Within the past five years, the company's reputation and aggressive marketing efforts have helped gain the confidence, and subsequently the PHI white label business, for many leading Canadian brands including CAA, Hbc, PC Financial, and Nestle Purina's relatively new market entry – PurinaCare.

At the start of 2010, the company had almost 66,000 pet health insurance policies in effect, an average monthly premium of $45.00, and an annualized premium volume underwritten of more than $35-million. And, in keeping with Western Financial's business focus, approximately 42 percent of SecuriCan's policyholders are based in western Canada.

Transitioning from Petplan to Petsecure

Among SecuriCan's other powerful assets is the actuarial database, representing more than 21 years of historical claims data, along with the significant equity that has been built around Petsecure, its own brand of comprehensive pet insurance coverage. The product was previously marketed under the name 'Petplan,' however the company opted not to renew its license for use of the 'Petplan' name, which belongs to Allianz, a U.K. based insurance company. Instead, SecuriCan repurposed the funds originally earmarked for licensing towards the development of its own brand. As part of this endeavor, the company undertook a comprehensive consumer research initiative, speaking to customers, veterinarians, and prospects across Canada to learn what they wanted most from pet insurance, and to determine if there was

'whitespace' in terms of important product features and benefits that could be incorporated into the new product. As a result, the new brand Petsecure wasn't just a new name, it was a completely novel approach to coverage: offering one core plan with four increasing levels of coverage to choose from. This re-imagined concept of pet insurance that was 'simpler to use and easier to understand' didn't only resonate with Canadian customers, other brands have since followed Petsecure's lead. Just this year, SecuriCan completed the successful transition of its policyholders over to the strengthened Petsecure branded product line. As the market leader, Petsecure is now positioned as a premium brand and the pet insurance product of choice for more than 45 percent of policyholders in Canada.

Pet insurance is a high-volume, low-margin product, however, as a result of SecuriCan's continuing strength in underwriting results, the company has been solidly and increasingly profitable. This past year the company continued to optimize operating efficiencies to reach premium growth of 20 percent, in spite of the tough economic times.

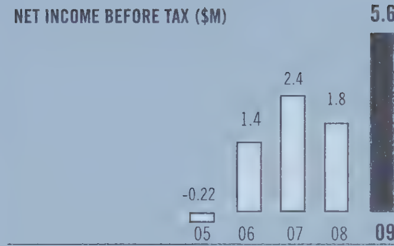
Outlook for 2010

The company continues to further streamline its services, realize efficiencies, and achieve short and long-term profitability for its stakeholders. Foremost in these efforts is the launch of PAWS – a new policy administration and underwriting system – in the spring of 2010. PAWS will automate activities in SecuriCan's in-house marketing, sales, claims and underwriting, CRM, and document management functions, realizing operating efficiencies of 25-50 percent across departments. This comprehensive project was co-developed in partnership with the U.S. pet insurance division of Nestle Purina PetCare, and represents a joint investment of $3.8-million on software development and another $1.5-million in associated software and hardware purchases.

While SecuriCan's primary focus is pet health insurance, SecuriCan will continue to keep an eye to the market for other niche product opportunities to underwrite. SecuriCan also participates in commercial property and casualty risks on behalf of the brokerage HED through its Protected Self Insurance Program (PSIP). The program allows policyholders to manage their first layer of risk while also facilitating the acquisition above this level by other excess insurance carriers. The funds held by SecuriCan on behalf of policyholders are included with cash and short-term investments on the balance sheet, and are held separately from the company's operating funds.

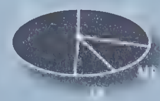
In early 2010, to address the trend towards an increasing sensitivity to price among internet-based consumers SecuriCan will also launch Petset, SecuriCan's second freestanding PHI product offering. Primarily web-based, Petset will offer more economical coverage options and a lower price point that is strategically positioned to garner customers who may not initially be sure of the level of coverage they want or require to ideally protect their pets. This will effectively take these prospects off competitors' radar, while providing SecuriCan with a strong base of pre-qualified clients to whom it can market and up-sell its more comprehensive Petsecure coverage.

NET INCOME BEFORE TAX ($M)



POLICIES WRITTEN BY PROVINCE

British Columbia	22.3%
Alberta	15.4%
Ontario	47.9%
All Other	14.4%



Fast Facts

2009	2008	
113	90	#f/t employees
50,566	47,343	#dogs insured
14,988	14,950	#cats insured
158,547	149,004	Avg # of calls/year in call centre
103	87	Total claims paid since 1989($M)

Community Volunteers

Front-line offices range in staff from three or four brokers in small locations to over 30 in larger ones with an average being 10 to 12. We found that in some locations, staff report that they volunteer up to 275 hours a year for their communities, with most offices averaging over 60 hours per employee. The range of volunteer missions is broad, running from the well recognized to the very specialized. They included Habitat for Humanity, coaching sports, soup kitchens, food bank drives, seniors projects, school projects, hospital and other fundraising of all kinds, hospices, service clubs, single moms and abused women shelters, walking and running in a variety of participation cancer causes, heart and stroke and MS. Many offices also raised their own funds to donate by selling off parking stalls and such things as 'Toonies–for–jeans–day.' Add to this effort what our business unit head offices and corporate offices do on their own and the numbers are impressive. An example recently in early January 2010 when the devastating earthquake in Haiti hit, and then, on their own accord, two employees put up a funding matching challenge to raise money to buy Shelter Boxes, which are possibly the most effective life saving package to deploy after a catastrophic event. Each contain a tent to house 10 people, sleeping bags, tools and water purification devices. Each cost $1,000 and transportation and deployment are free of charge. The goal was to provide 10 through the Canadian Government's matching program. We are now at 24 and counting with almost all funding coming directly from our staff.

The remarkable summary to our Company's staff community volunteer service is that employees as a total will contribute over 50,000 hours a year to their communities across the west. An impressive total by any benchmark.

Western Communities Foundation

Our industry is considered one of the building blocks of communities, and as many of our offices have been in their community for generations, there are few companies of our size that have such a deep and personal community relationship. We also recognize that without being part of the fabric of our western Canadian communities, we cannot succeed, as these relationships are built with neighbours, friends and community supporters who happen to also be customers. It's a synergistic relationship, as the more successful our communities are, the more successful we will be. We therefore look for opportunities to support and help develop our communities, and one of the ways we do this is through the Western Communities Foundation, a charity established in 2002 which focuses our support into five main channels:

- Community Grants. We had our usual draw for five community grants from all the offices that had requested grants towards infrastructure projects and development in their communities.

- Bursary Awards to High School students who are nominated by their local high schools for 'exceptional achievement,' and 50 awards were again given out in 2009.

- Our Automated External Defibrillators. In 2009, after we had placed so many in 2008, our requests were down dramatically and we placed six in our communities. However, we are again pleased to report that one of our units was used in an emergency resuscitation in one of our communities.

- Local Matching Grants Funds we send to match a local fundraiser put on by one of our local offices. In 2009 we had 11 events.

- We were again behind a donation to our friends at Canadian Vision Care with support for eye care specialists in our communities of Lethbridge, Nanaimo, Peace River, Drumheller, Olds, Grande Prairie, Red Deer and High River.

Funds are raised annually for the Foundation through two major events. In 2009, our 'Support The Cause Day' saw participation by over 504 staff in 85 locations, who walked, ran and cycled on the same day to raise $53,240. We also hosted our popular annual Fall Classic golf tournament which this year raised over $30,000, and we received donations from a large number of companies and individuals throughout the year.

One of the benchmarks of community relationships is our staff who volunteer for charities, services, schools and community events from their personal time. This year we took a closer look at the volunteer work done by our staff and the time commitments they make as members of their communities, and we were impressed by what we found. A summary is on the left, "Community Volunteers."

Equity Partners

Jennings Capital (JCI)

Jennings Capital is a private Canadian investment dealer. In 2002, we were offered an equity position in the company, and we currently hold a 35 percent interest. From its beginnings as a one location office in Calgary, the company has emphasized partnering in growth with its customers, and has grown to locations in Calgary, Toronto and Halifax as a fully integrated dealer with over 80 staff.

JCI has its sights on its goal, and continues to build one of Canada's most respected investment firms with a global reach – through the professional combined activities of its sales, trading, research and corporate finance divisions.

Institutional sales and trading: JCI offers institutional sales and trading to both domestic and international investors.
Research: JCI's analysts seek out and provides objective advice on a variety of Canadian public (and private) companies.
Client Services: JCI offers advisory, trading and new issue participation to high net worth investors.
Investment banking: JCI offers financing and advisory services to a range of domestic and international high growth companies.

Harvard Western Ventures – Saskatchewan

In 2005, Western Financial and Harvard Developments, in equal partnership, formed Harvard Western Ventures by merging two well known local agencies in Regina and area. In 2009, another Regina insurance agency was acquired and at the end of 2009 all the offices were rebranded under a single banner – Harvard Western Insurance. 2009 was the largest year in the company's history for total and net income.

Services: General commercial, farm and personal insurance sales and service and government auto licensing services
Communities: 2
Locations: 5
Employees: 50

Falkins Insurance Group – British Columbia

This insurance brokerage has been operating in southeast British Columbia since the early 1900s and has grown to be the largest insurance agency in the Kootenays. In 2005, Western Financial took a 20 percent interest in Falkins and plans are underway to increase this holding within the next 12 months. 2009 was the largest year in the company's history for total and net income.

Services: General commercial, farm, and personal insurance sales and service and government auto licensing services
Communities: 10
Offices: 11
Employees: 108

Marlin Travel (Hi-Alta Travel Ltd) was part of Western at the start of the company.

In 1996, it provided travel services to a dozen employees in two locations, and had almost 20 percent of our staff working in its office in High River. Fourteen years later, it still provides travel services to Western and its 1,300+ full, part-time and casual employees and even though it has also grown – to five locations – it has lost some ground on the employee percentage side, with about 2 percent of our total staff employed there. Still, the company has never had an unprofitable year, and contributes on a regular basis to the overall success of the group.

While 2009 was a hard year due to the economy – particularly for travel and tourism – we continued to see a loyal following of customers who prefer the added services only a local, trained professional Travel Agent can provide for advice, planning and recommendations for a problem free vacation. Not to mention being available to look after the challenges on airfares that occur while on vacation.

Our annual surveys by our Mystery Shoppers ranked their Marlin Travel office at a very high 87 percent average satisfaction level in 2009.

Our offices are located in southern Alberta, in:

- Brooks
- Drumheller
- High River
- Okotoks
- Strathmore

"These combined operations provide our company with a unique and powerful platform on which to expand sales to new customers in the west and develop sales momentum on cross sales to existing customers."

Catherine Rogers, Chief Financial Officer
Western Financial Group

Management's Discussion and Analysis of Financial Condition and Results of Operations

Business of Western Financial Group

We are a leader in providing insurance, financial services and banking services to more than 500,000 individuals and businesses in western Canada through the Network, affiliated insurance brokers, Western Life, Bank West and SecuriCan.

We are one of only a few Canadian organizations operating in the banking, life and property and casualty insurance sectors. In addition, we own and operate the largest insurance network of brokerages in western Canada.

These combined operations provide our company with a unique and powerful platform on which to expand sales to new customers in the west and develop sales momentum on cross sales to existing customers.

Our primary business has historically been the ownership and operation of the Western Financial Group (Network) Inc. (Network), which serves 100 communities with offices in British Columbia, Alberta, Saskatchewan and Manitoba. In addition, we have affiliated offices in 12 communities with 17 offices in British Columbia and Saskatchewan. These locations offer a broad variety of property and casualty insurance services including automobile insurance, home and farm insurance, business and specialty insurance, life insurance products and in many locations, investment and financial services.

In October 2009, we completed the acquisition of Hayhurst Elias Dudek Inc. (HED) which is now part of the Network. HED was one of the largest independently-owned insurance brokers in Canada, with approximately 190 employees nationwide. HED's head office and the majority of the employees are located in Winnipeg. HED specializes in progressive and unique commercial insurance and employee benefits products specifically designed for Canadian independent businesses and government entities that are aligned with association or buying group.

In addition, we completed the acquisition of SecuriCan General Insurance Company (SecuriCan) October 1, 2009. SecuriCan is Canada's largest and most profitable underwriter of pet health insurance.

With the acquisition of HED and SecuriCan, we have a powerful new set of resources in place to continue the systematic growth of our business.

Bank West (the Bank), a Schedule I chartered bank, offers deposit and loan services, including Guaranteed Investment Certificates (GICs) and personal and commercial loans which are offered through its own broker network as well as through the Network locations. The Bank has been successful in developing a growing business in recreational vehicle, marine and auto dealership financing and in offering mortgage products. In January 2009, we acquired all of the outstanding shares of Agrifinancial Canada Corp. (Agrifinancial) in Winnipeg, MB. Agrifinancial is a leading lender to agribusiness in western Canada including more than 25,000 farmers who carry Agrifinancial's AgriCard, a specialty credit card accepted at more than 750 agricultural merchants. In addition to the AgriCard, Agrifinancial provides term loans to farmers for the purchase of farm equipment. Agrifinancial operates as a specialty unit within our banking subsidiary, Bank West.

Western Life Assurance Company was acquired effective February 28, 2005, and brings a wide-range of quality life

insurance products to the Network offices. These include term and permanent life insurance, group benefits, health and disability insurance and loss of employment insurance. Western Life also has a network of over 2,000 brokers who sell its products. Since being acquired Western Life has worked closely to develop strategies to successfully introduce their product lines for sale through the Network.

Investment products are offered from a small number of Network locations on a referral basis to Jennings Capital, a full-service investment dealer with its head office in Calgary, Alberta, in which we have a 35 percent equity interest.

2009 Highlights

- January – Acquisition of Bakes-Jarvie Insurance Brokers, Ltd.
  – Acquisition of Agrifinancial
- April – Completed offering of Convertible Subordinated debentures for gross proceeds of $16.7-million
- August – Completed offering of first preferred shares series 5, for gross proceeds of $30-million
- September – Completed additional offering of first preferred shares series 5, for gross proceeds of $5.5-million
  – Re-negotiated our credit facility with a Canadian chartered bank increasing the available facility to $70-million
- October – Acquisition of HED and SecuriCan

Acquisitions and investments

During the first quarter of 2009, we acquired all of the outstanding shares of Bakes-Jarvie Insurance Brokers Ltd. in Nanaimo, B.C. In January 2009, we acquired all of the outstanding shares of Agrifinancial Canada Corp. (Agrifinancial) in Winnipeg, MB.

In October 2009 we increased our investment in HED to 100 percent from 49 percent in 2008. The results of HED are included in our consolidated operating income subsequent to October 1, 2009. The results were previously recorded in income from equity investments as HED was classified as an equity investment.

During 2008, we acquired all of the outstanding shares of the following insurance brokerage businesses: Southern Insurance Management Inc., in Lethbridge, Alberta; Simpson Insurance Ltd., in Trochu, Alberta; Woodland Insurance Agencies, in Grande Cache, Alberta; Boyd Agencies Ltd. in Prince Albert, Saskatchewan; Vet's Insurance & Consultants Ltd. in Coleman, Alberta; and Dunn Realty and Insurance Ltd. in Wolseley, Saskatchewan. In addition, we increased our investment in Hayhurst Elias Dudek Inc. (HED) to 49 percent from 25 percent which was acquired in August 2006.

In September 2008, we entered into a share purchase agreement with C.A. Bancorp Inc. to acquire Winnipeg based Agrifinancial Canada Corp. The acquisition closed in January 2009 as discussed above.

See note 10 in our audited financial statements for additional details regarding acquisitions.

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our audited consolidated financial statements and related notes as at and for the years ended December 31, 2009 and 2008.

CURRENT OUTLOOK

We do not expect there to be significant changes to the financial services industry, in general, that would have a material negative impact on the growth of Bank West, the Network, Western Life, or SecuriCan. In fact, we are encouraged by developing positive trends in Western Canada including stable employment rates and commodity prices. We recognize that the recovery will be slow so we will monitor our business and market developments and continue to act prudently.

While Property and Casualty ("P&C") insurance rates at the Network in 2009 continued to be soft, we have started to see some personal insurance premium increases that will take effect over the next twelve months primarily on the property side of the business. In Alberta, the Rate Board has announced a 5% premium reduction on Alberta auto mandatory coverage effective November 1, 2009. Business insurance premiums have begun to stabilize. We expect to see a slight hardening of the commercial market although capacity to write business for most insurance companies remains high. We don't expect a dramatic shift like we saw in 2002. Over the past few years, the financial results of insurers have deteriorated especially in personal property insurance, as rising claims costs were not fully covered by increases in premiums. As a result of the continuing claims, especially in homeowner insurance, the high cost of repair and a reduction in investment income, we see insurance companies applying rate increases. As broker's revenues are derived from commissions, we expect to realize increased revenue at the Network as insurance premiums increase. We have not seen the expected rate increases in 2009 due to competition in the personal lines business and soft commercial market. We continue to track our same store sales and expect to see increases in premium rates in 2010.

With increased pricing we expect no adverse impact on customer retention as we will remain competitive in our market place. Our retention rates have remained consistent with 2008. We expect inflationary trends, particularly wage expenses, to abate somewhat.

Bank West will find opportunities for ongoing quality lending and acquisitions. We expect continued challenges in credit quality with residential mortgages, personal loans, and collections as we experienced increased specific loan loss provisions in 2009. Bank West will maintain disciplined underwriting practices along with diligent review of delinquencies and appropriate reserving levels. Our credit quality remained satisfactory in view of the ongoing economic challenges. Non-performing loans increase to 2.0 % compared to 1.1% at September 2009. Non-performing loans are expected to fluctuate as economic recovery is expected to be slow.

We anticipate that the life and health insurance industry will remain stable in the medium to long-term, especially in the communities where we operate. In 2009, we continued to develop new distribution channels and increased sales in the Network and our affiliated companies, resulting in improved diversification of our portfolio.

While the pet insurance industry is still enjoying double digit growth, 2009 was a tough year as we converted our brand from Petplan to Petsecure and as such we saw increased cancellations and fewer policy sales. We expect to see 2010 with growth rates similar to the industry and anticipate seeing good growth in premiums and new policy sales. Claims costs continue to be at anticipated levels and we don't anticipate any drastic changes through 2010. Even with only 1% penetration in the pet insurance market in Canada the industry remains extremely competitive and we will be focusing on our core competencies to ensure that we maintain our number one position.

Our equity investments provide products and services similar to the Western Financial Group of companies except Jennings Capital Inc., which is an investment dealer. Revenues and earnings improved in the second quarter of 2009 and improvement continued throughout the year. The investment dealer industry was subject to a decrease in business with the economic environment. The challenging conditions in the capital markets resulted in lower profits in 2008.

This management's discussion and analysis is dated March 11, 2010 and provides forward-looking information and comments regarding our objectives, strategies, financial results, risk management and business outlook. Forward-looking information and statements involve numerous assumptions, risks and uncertainties, including the risk that prediction and other forward-looking statements may not prove to be accurate. We caution the reader not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and comments expressed in them. A variety of factors, many of which are beyond our control affect our operations, performance and results. Such factors may include, but are not limited to: changing and prolonged financial and economic uncertainty; regulatory and legal developments; competition industry trends and availability of capital resources; declining interest rates; credit quality; liquidity; movement in credit spreads; changes in accounting standards and policies; changes in tax laws; and our anticipated success in managing our risks. We caution readers

that the foregoing list is not exhaustive. Except as required by law, we do not undertake to update any forward-looking statements, written or oral, that we may make from time to time regarding our operations and performance.

NON-GAAP MEASURES

The financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). We use non-GAAP measures to discuss our business, operations and performance. Although our non- GAAP measures do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers, these measures are determined by reference to our financial statements and management's discussion and analysis. We discuss these measures as we feel that they are some of the key indicators of the performance of our business.

Operating income refers to earnings, including investment income, before income from equity investments, impairment on equity investments, impairment on available for sale securities, the gain or loss on the sale of investments and capital assets, interest and financing costs on long-term debt, amortization of intangible assets, amortization of capital assets, and income tax expense.

Return on common equity refers to net income after preferred dividends divided by average common shareholders' equity.

Total long-term liabilities refer to customer deposits maturing after one year, and long-term debt less the current portion of long-term debt.

Same store revenue is the change from one year to the next in the revenues of the Network. ("the Network's") existing branches in the year excluding acquisitions in the year.

Same store customer accounts tracks the increase in our customers and policies in the Network's existing branches in the year excluding acquisitions in the year.

Products per customer account (PPCA) tracks the number of additional products we deliver to a customer.

Loss Ratios, assist in analyzing the underwriting at Western Life Assurance Company ("Western Life") by dividing the claims incurred by the net premiums written.

Regulatory capital refers to the total capital required to support credit, market and operational risk at Bank West, in accordance with OSFI requirements.

Risk weighting of assets refers to the deemed credit risk of each asset and assets are assigned a rating which is then used as a calculation for the regulatory capital at Bank West, including operational risk and market risk based on OSFI requirements. ***Tier 1 and Tier 2 capital*** refers to the core capital that must be maintained at Bank West. The current regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighed asset and off-balance sheet items of 10%, of which 7% is to be tier1 and the remainder supplementary capital (tier 2).

Capital adequacy ratio is a measure of the regulatory capital at Bank West and is expressed as a percentage of the bank's risk weighted credit exposures. This ratio is used to protect depositors and promotes the stability and efficiency of financial institutions.

Bank West loan book is used to measure the gross loan portfolio.

Western Life policy/certificate count track the increase in individual and group policies written.

KEY BUSINESS DRIVERS

Our management has identified certain key business drivers to assist it in managing and evaluating the progress of our business, especially the largest component of our business, the Network. These drivers consist of both non-GAAP measures and operational indicators.

For the Network, we track **same-store revenue** change, from one period to the next. As we continue to add branch offices to the Network through acquisitions it is important for us to track the revenues of the Network's existing branch offices. As we continue to add new products through the sale of P&C insurance and the addition of financial service products through the Network, we expect the average number of products we sell to existing customers to increase. To analyze this, we track the **products per customer account (PPCA)**. We also track the Network's year-to-date annualized percentage change in **same-store customer account** increase.

With Western Life we track the increase in the **policy and certificate count**, and with Bank West we are focused on the growth of the **loan book**. Corporately we are looking at our **return on common equity** and the increase we are able to achieve over the next few years.

The table below shows our key business drivers.

	2009	2008	2007	2006	2005	2004	2003
Same-store Revenue (% change) (1)	**4.2 %**	+8.9 %	+ 7.7 %	+ 6.9 %	+ 6.8 %	+ 6.6 %	+13.8 %
Products per customer account (PPCA)	**2.41**	2.31	2.30	2.29	1.77	1.67	1.51
Same-store Customer Count (year to date annualized, % change) (2)	**+1.1 %**	+3.5 %	+ 4.3 %	+ 4.5 %	+ 2.8 %	+ 4.0 %	+ 4.0 %
Western Life Policy/Certificate Count	**29,901**	28,284	25,374	22,064	19,180	0	0
Bank West Loan Book ($ millions)	**$ 360.5**	$ 273.4	$286.8	$149.4	$91.5	$ 43.4	$ 16.4
Return on Common Equity (ROE)	**7.0 %**	1.8 %	8.1 %	7.9 %	8.1 %	8.3 %	7.5 %

Notes:

(1) Represents same-store revenue increase for the twelve months ended December 31, of the year over the corresponding period in the prior year.

(2) Represents year over year annualized increase.

THREE YEAR SUMMARY

YEARS ENDED DECEMBER 31 (in $ thousands except for per share amounts)		2009		2008		2007
Total revenues	$	**166,076**	$	124,885	$	114,126
Net Income	$	**15,961**	$	6,548	$	12,213
Earnings per share - Basic	$	**0.22**	$	0.05	$	0.24
Earnings per share - Diluted	$	**0.22**	$	0.05	$	0.22
Total assets	$	**816,326**	$	677,620	$	622,701
Total long-term liabilities	$	**249,475**	$	228,103	$	240,850
Total cash dividends paid	$	**6,119**	$	5,898	$	2,074
Per Common Share	$	**0.04**	$	0.04	$	0.03
Per First Preferred Series 2	$	**6.75**	$	6.75	$	6.75
Per First Preferred Series 3	$	**6.75**	$	6.75	$	3.38
Per First Preferred Series 4	$	**6.75**	$	6.75	$	-
Per First Preferred Series 5	$	**-**	$	-	$	-
Issued common shares		**49,367,049**		49,333,127		47,752,851

SEGMENTED DATA

Our financial results are divided into five reportable segments: insurance brokerage, banking services, life insurance, pet insurance, and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through the Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans, mortgages and GICs to other customers through Bank West. The life segment offers a range of disability products along with group life and health, and loss of employment insurance through the Network and other distribution channels. The pet insurance segment offers a range of accident and illness insurance products for cats and dogs through SecuriCan.

YEARS ENDED DECEMBER 31 (in $ thousands except for per share amounts)	2009		2008
The Network			
Commissions and other customer revenue	**89,144**	$	75,424
Operating expenses	**63,261**		54,709
Operating income (1)	**25,883**	$	20,715
Bank West			
Interest and investment income	**25,514**	$	18,596
Interest expense-customer deposits	**15,165**		12,555
Net interest and investment income	**10,349**		6,041
Provisions for credit losses	**2,645**		936
Operating expenses	**8,249**		3,867
Operating (loss) income (1)	**(545)**	$	1,238
Western Life			
Premium and investment income	**40,691**	$	32,923
Policyholder benefits	**20,123**		14,789
Operating expenses	**15,565**		13,907
Operating income (1)	**5,003**	$	4,228
SecuriCan			
Premium and investment income	**9,077**		-
Policyholder benefits	**3,951**		-
Operating expenses	**3,052**		-
Operating income (1)	**2,074**		
Corporate and all other			
Other revenues	**1,650**	$	1,959
Operating expenses	**9,692**		9,223
Operating loss (1)	**(8,042)**	$	(7,264)
Total operating income (1)	**24,373**	$	18,915

(1) Before Impairment on AFS ($3,830) and Realized Loss on AFS assets ($217) in 2008

Notes:

(1) See reconciliation to net income on Page 34.
We use "operating income" in this chart to refer to earnings, before interest expense, income from long-term investments, taxes, impairment from available for sale financial instruments, one-time gains (losses), depreciation and amortization of intangible and capital assets. Operating income (loss) is a non-GAAP measure we use to measure our corporate performance before the costs of capital and amortization of capital and intangible assets. This measure may not be comparable to similar measures presented by other issuers and investors are cautioned that it should not be used as an alternative to "net income" or other measures of financial performance calculated in accordance with GAAP.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2009 COMPARED TO THE YEAR ENDED DECEMBER 31, 2008

The operating results for HED and SecuriCan are included in the result of operations effective the acquisition date, October 1, 2009.

REVENUE

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		2009		2008	Change from 2008 to 2009		
The Network	$	89,144	$	75,424	$	13,720	18%
Bank West		25,514		18,596	$	6,918	37%
Western Life		40,691		32,923	$	7,768	24%
SecuriCan		9,077		-		-	-
Corporate and all other		1,650		1,959	$	(309)	-16%
	$	166,077	$	128,902	$	28,098	22%

The increase in revenue was a result of the acquisitions at the Network primarily HED which resulted in an increase of 19.7% in net premium income at Western Life contributing $37.5 million to our revenue, the increase in the gross interest and investment income at Bank West of $6.9 million with the acquisition of AgirFinancial, and $9.1 million of revenue earned since October 1, 2009 with the acquisition of SecuriCan.

We have seen a slower 2009 than usual due to several conditions. First, with the continued down turn in economic conditions, the Network saw its same store sales increase at 4.2% compared to 8.9% in 2008. Our policy count continued to grow, we maintained our retention ratios, and our margins remained consistent with 2008. Adversely, commercial businesses reduced or removed coverage on their existing assets waiting for the economy to recover and the purchase of new homes and cars seemed to be on hold. At the Bank we are beginning to see our portfolio volumes increase with the acquisition of AgriFinancial. As we direct our capital to the assets managed by Agrifinance loans and AgriCard we have seen our annualized margins increase from 2.2% in 2008 to 2.9% in 2009. With Western Life we continue to see growth in premium sales consistent with 2008 and have seen an increase in our investment income with our bond portfolio.

YEARS ENDED DECEMBER 31							
Revenue (in $ thousands)		2009		2008	Change from 2008 to 2009		
The Network							
Property & Casualty Commission	$	67,039	$	55,712	$	11,327	20%
Government auto		14,433		13,363		1,070	8%
Contingent income		5,480		4,514		966	21%
Other		2,192		1,835		357	19%
	$	89,144	$	75,424	$	13,720	18%
Premiums written		395,357	$	343,683			

The increase in Network revenue was primarily due to acquisitions contributing $10.1 million. HED was acquired on October 1, 2009 contributing $7.6 million to our revenue in the fourth quarter. The growth in same-store revenue of 4.2% represented an additional contribution of approximately $2.0 million, and an increase in government auto of $1.0 million. Finally we saw an increase in contingent income of $1.0 million, and an increase in the sale of financial services products of $600,000. Contingent profit agreements can vary by office, region and company and are not finalized by third party insurers until the following year, which may require an adjustment (positive or negative) to the amount previously estimated and recorded. Property and casualty commissions are earned on premiums written which vary by province and product and generally range from 5.0% to 25.0%.

YEARS ENDED DECEMBER 31 Revenue (in $ thousands)	2009	2008	Change from 2008 to 2009	
Bank West				
Interest income	$ 24,556	$ 17,398	$ 7,158	41%
Investment income	190	766	(576)	-75%
Other income	768	432	336	78%
	$ 25,514	$ 18,596	$ 6,918	37%

Bank West's loan portfolio before provisions increased 31.7% to $360.5 million in 2009 from $273.4 million in 2008. This increase is due to the acquisition of AgriFinancial which closed January 30, 2009. The AgriFinance portfolios are cyclical and there has been an adverse impact due to the late seeding season due to weather conditions in 2009 compared to 2008. New business volumes in both AgriCard and Agrifinance portfolio for 2009 were fairly consistent with 2008, but fell below expectations. Concerns over harvest conditions and commodity prices have caused producers to remain cautious regarding new purchases. With the acquisition we have changed the mix of our loan portfolio resulting in a better diversification by product and geographically. We decreased our residential mortgages and redeployed capital to the agricultural loans, leases, credit card portfolios, and other consumer loans. With the slower than anticipated growth in agricultural loans we had higher than expected cash balances throughout the year causing lower than expected profits due to the lower yields on surplus cash compared to lending assets. However we were still able to increase our margins to 3.0% annualized compared to 2.6% in 2008.

As a result, Bank West's net interest and other revenue after provisions for loan losses saw a 37.1% increase to $8.3 million in 2009 compared to $6.1 million in 2008. We recorded provisions for loan losses in 2009 of $2.6 million compared to $940,000 in 2008. Our credit quality remained sound but non-performing loans increased as expected in view of the ongoing economic challenges. We saw non-performing loans increase to 2.0% compared to 1.1% at September 2009. Non-performing loans are expected to fluctuate with expectations of returning to historical levels as the economy recovers. We recorded higher loan losses in the fourth quarter primarily in commercial equipment leases and dealer finance.

YEARS ENDED DECEMBER 31 Revenue (in $ thousands)	2009	2008	Change from 2008 to 2009	
Western Life				
Premium income	$ 37,491	$ 31,309	$ 6,182	20%
Investment income	3,200	1,614	1,586	98%
	$ 40,691	$ 32,923	$ 7,768	24%

Western Life contributed $40.7 million in total revenue. We had $37.5 million in net premium revenue as compared to $31.3 million with investment income of $3.2 million after recording realized losses of $700,000 on disposal of a portion of our equity portfolio.

Direct sales from the Network of $3.4 million in 2009 demonstrated the continued support and integration between Western Life and the Network year over year. In addition we began providing group business for clients of HED in the fourth quarter of 2008. In 2009 this added premiums of $7.2 million compared to $1.3 million in the fourth quarter of 2008.

YEARS ENDED DECEMBER 31 Revenue (in $ thousands)	2009	2008	Change from 2008 to 2009	
SecuriCan				
Premium income	$ 8,975	-	-	-
Investment income (loss)	102	-	-	-
	$ 9,077	-	-	-

SecuriCan was acquired October 1, 2009. In the fourth quarter they contributed $9.1 million to our total revenue from the sale of pet health insurance.

YEARS ENDED DECEMBER 31 Revenue (in $ thousands)	2009	2008	Change from 2008 to 2009	
Corporate and all other				
Commission and other customer revenue	$ 1,075	$ 1,161	$ (86)	-7%
Interest and investment income	418	412	6	2%
Dividend income	157	386	(229)	-59%
	$ 1,650	$ 1,959	$ (309)	-16%

Revenue in corporate and all other is derived mainly from our travel operations along with dividend and investment income at Corporate. Revenue from our corporate and all other segment decreased due to the decrease in our dividend income from our investments. Additionally we saw a decrease in interest and investment income with the decrease in interest rates resulting in a reduction in income from our daily cash balances offset by a realized gain on the sale of our preferred share investment portfolio of $400,000 held at Corporate.

OPERATING EXPENSES

YEARS ENDED DECEMBER 31 Operating Expenses (in $ thousands)		2009		2008	Change from 2008 to 2009		
The Network	$	**63,261**	$	54,710	$	8,551	16%
Bank West		**8,249**		3,868		4,381	113%
Western Life		**15,565**		13,907		1,658	12%
SecuriCan		**3,052**		-		-	-
Corporate and all other		**9,692**		9,222		470	5%
	$	**99,819**	$	81,707	$	15,060	18%

The majority of the increase in total operating expenses is tied to operating expenses for the new acquisitions at the Network primarily HED, the acquisition of AgriFinancial at the Bank and, an increase in commissions and claims at Western Life due to the increase in premium sales, and the operating expenses of SecuriCan.

The Network's increases in expenses are normally the result of new acquisitions and the increase in activity levels as a result of new business. Acquisition activity increased our operating expenses by $6.7 million which primarily came from the operating expenses of HED for the fourth quarter in 2009. We saw an increase in salaries and wages before acquisitions of $2.4 million from performance increases, management's estimate for year-end bonuses, and we increased our employer benefits contribution from 50% matching to 75% matching in January 2009. As a percentage of revenue, salaries and wages including producer commissions increased to 52% compared to 51% in 2008. We expect salaries and wages as a percentage of revenue to generally run at approximately 50.0% on an annualized basis.

Bank West's operating expenses increased primarily with the acquisition of AgriFinance with $4.2 million of general expenses to support revenue of $9.4 million. We had an increase in salaries of $300,000 which was due to one- time severance costs, and with the implementation of our new banking platform and running parallel systems we increased our computer expense by $300,000 which was reduced beginning in the second quarter of 2009. We were able to partially off-set these costs by managing our expenses in other areas.

Western Life continues to demonstrate efficient control of expenses. Loss ratios increased slightly to 44.4% compared to 40.6% in 2008. This reflects the percentage of claims to new premiums written. Earlier in 2009 we experienced an increase in the number of health and dental claims mostly attributable to the uncertainty in the job markets at the time causing an increase in the utilization of health benefits and an the increase in our loss ratios. This trend seems to be now returning to levels seen prior to the economic downturn. Commission expenses correlate to the growth in premiums and accounted for $1.2 million of the increase.

Corporate and all other segment operating expenses increased primarily due to advertising expenses of $400,000 with our branding of Western Financial Group in the Network, and advertising through West magazine and media.

INCOME FROM EQUITY INVESTMENTS

Income from equity investments increased year over year by $690,000 which is in line with our expectations. These investments include Jennings Capital Inc., Harvard Western Ventures Inc., Falkins Insurance Group Limited, Hayhurst Elias Dudek Inc. which includes SecuriCan for the first nine months, and Archibald Clarke & Defieux Insurance Services Inc. Commencing in the fourth quarter HED and SecuriCan's results were consolidated and no longer included in income from equity investments.

(LOSS) GAIN ON SALE OF INVESTMENTS AND ASSETS, AND IMPAIRMENT ON EQUITY INVESTMENTS

YEARS ENDED DECEMBER 31 (in $ thousands)		2009		2008
Gain (loss) on sale of assets	$	298	$	1,263
Impairment on investments	$	-	$	(2,053)

In 2008 we realized a gain of $1.2 million on certain licenses and other assets that we sold which were originally acquired through acquisitions at the Network.

In 2008 we disposed of shares in one of our investments which are accounted for by the equity method. Under this method, as we recognize our share of the income in our investment the carrying value of the investment increases. In this case, when the shares were sold the transactions were done at our average cost resulting in a loss of $200,000 in 2008.

As at December 31, 2009 we reviewed the carrying value of our equity investment at Jennings Capital and determined that there had been no further impairment in value.

As at December 31, 2008 we reviewed the carrying value of our equity investment at Jennings Capital to determine whether there had been a decline in value that is other than temporary. As this investment is not publicly quoted management concluded that based on the current book value and expected future cash flows, that there was evidence of impairment at the balance sheet date and there had been a decline in the value of the investment that is other than temporary, resulting in an impairment loss of $2.1 million, which was recorded in net income.

At each reporting date, and more frequently when conditions warrant, the Company evaluates its AFS securities with unrealized losses and its equity investments to determine whether those unrealized losses are other than temporary. This determination is based on consideration of several factors including the length of time or extent to which the fair value has been less than its amortized cost, the significance of the decline below cost, the cause of the impairment and the financial condition and the near-term prospects of the issuer, default or delinquency in interest or principal payments, and other observable data. If the Company's assessment indicates that the impairment in value is other than temporary, impairment charges are recorded in net income.

INTEREST AND FINANCING COSTS ON DEBT

Interest expense increased in 2009 by $2.2 million to $4.3 million from $2.1 million. In April 2009 we issued $16.7 million in convertible unsecured subordinated redeemable debentures with interest payable semi-annually at 12% per annum. We incurred $1.4 million in interest expense in 2009 in relation to the issuance of debentures. Effective September 30, 2009 the Company entered into a new credit facility with a Canadian chartered bank increasing its borrowing capacity to $70.0 million from $50.0 million. In October the Company drew down an additional $19.3 million of the facility to fund the acquisition of HED. This increased our interest expense by $900,000 in 2009.

INCOME TAXES

Income taxes have decreased $1.6 million primarily due to favourable tax treatment we acquired with the acquisition of AgriFinancial. This tax treatment creates a future income tax asset and reduces the future income tax expense.

Subsequent to the acquisition of AgriFinancial in 2009, we now have a reasonable expectation that we will fully use the tax losses that we purchased with Ubiquity detailed in note 21 in the audited financial statements.

NET INCOME

YEARS ENDED DECEMBER 31 (in $ thousands)		2009		2008	Change from 2008 to 2009	
Revenue	$	**166,076**	$	124,855	41,221	33%
Operating income		**23,981**		18,915	5,066	27%
Impairment of available-for-sale securities		**-**		(3,830)	3,830	-100%
Realized gain (loss) on sales of AFS assets		**392**		(217)	609	-281%
Income from equity investments		**2,859**		2,172	687	32%
Impairment on equity investments		**-**		(2,053)	2,053	-100%
Gain (loss) on sale of investments and capital assets		**298**		1,263	(965)	-76%
Interest and financing costs on long-term debt		**(4,308)**		(2,137)	(2,171)	102%
Amortization of intangible assets		**(3,163)**		(2,661)	(502)	19%
Amortization of capital assets		**(2,088)**		(1,262)	(826)	65%
Income before income taxes		**17,971**		10,190	7,781	76%
Income taxes		**(2,010)**		(3,642)	1,632	-45%
Net income for the year	$	**15,961**	$	6,548	$ 9,413	144%

Net income increased $9.4 million in 2009 compared to 2008. This increase was due to the increase in our operating income, income from equity investments and reduction in tax expense. This increase was reduced by higher interest expense and amortization costs. In 2008 we recorded a loss from the impairment on equity investments and various other asset impairments as a result of the economic conditions that existed at the end of 2008 in our available for sale and equity investments and other non-recurring items in the sales of available for sale and other investments.

SELECTED QUARTERLY FINANCIAL INFORMATION

FOR THE QUARTERS ENDED 2009 (in $ thousands except per share amounts)		March 31		June 30		September 30		December 31
Total Revenue	$	31,381	$	40,878	$	40,088	$	53,728
Income before income tax	$	328	$	6,141	$	5,198	$	6,304
Net income	$	914	$	4,925	$	4,147	$	5,975
Earnings (loss) per share:								
Basic	$	0.00	$	0.08	$	0.06	$	0.08
Diluted	$	0.00	$	0.07	$	0.06	$	0.09

FOR THE QUARTERS ENDED 2008 (in $ thousands except per share amounts)		March 31		June 30		September 30		December 31
Total Revenue	$	30,102	$	34,371	$	32,012	$	32,417
Income before income tax	$	3,156	$	7,918	$	3,232	$	(4,115)
Net income	$	2,386	$	5,839	$	2,100	$	(3,777)
Earnings (loss) per share:								
Basic	$	0.05	$	0.08	$	0.04	$	(0.12)
Diluted	$	0.04	$	0.08	$	0.04	$	(0.11)

In the quarter ended December 31, 2009, our fourth quarter, we generated revenue of $53.7 million, a net income of $6.0 million, and earnings per share of $0.08. This compares to revenue of $32.4 million, net loss of $3.8 million and losses per share of $(0.12) in 2008. Total revenue is increased from on-going operations and acquisitions. We did not have the negative impact from the impairment on our equity investments and available for sale financial instrument in 2009 that was recorded in the fourth quarter of 2008. Net income and earnings per share had a significant adverse impact in the fourth quarter of 2008 from management's decision to record an other than temporary impairment on certain of our available for sale equity and preferred share investments amounting to a loss of $3.8 million and an impairment loss on one of our equity investments amounting to a loss of $2.1 million as detailed in the gain on sale of investment and capital assets. In the first quarter of 2009 we recorded a loss of $900,000 from a realized loss on the sale of available for sale assets and the change in fair value in held-for trading securities and we saw a slower first quarter at the Network. In the first quarter of 2009 we also had a loss of $300,000 in our income from equity investments compared to a $1.1 million gain in the second quarter.

EARNINGS PER SHARE

In 2009 we recorded $0.22 basic earnings per share compared to earnings per share of $0.05 in 2008. Our first preferred Series 2, 3, 4 and 5 shares are entitled to a fixed cumulative preferential cash dividend if as and when declared by our board of directors. The dividend payment is deducted from net income for the calculation of earnings per share. Dividends have been declared since issue and we are accruing for the dividend payment on a quarterly basis. Preferred share dividends for 2009 were $5.0 million compared to $3.9 million in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Total shareholders' equity at December 31, 2009 was $246.6 million compared to $203.7 million at December 31, 2008. We recorded an increase in share capital of $33.5 million from the issuance of 355,000 First Preferred Series 5 Shares net of costs, and an increase in retained earnings of $8.9 million.

We expect our capital resources will be sufficient to satisfy our financial requirements, which include business acquisitions, senior debt, dividends, interest payments and capital expenditures. Capital resources include cash, funds raised through equity financings, available senior bank debt and funds generated from operations.

We have a credit facility to a maximum of $70.0 million negotiated with a Canadian chartered bank. As at December 31, 2009, $62.2 million of this facility had been utilized. Pursuant to the terms of this credit facility, we make monthly loan payments of $774,000 plus interest. Repayment of the credit facility is dependent upon annual renewal. In the event the chartered bank elects not to extend the initial period, the facility will convert to a two-year committed term facility for all amounts due there under. During 2009, the Company entered into two interest rate swap agreements to manage interest rate risk on $40.0 million of its bank debt. The actual amount of gain or loss on these hedges will fluctuate with current interest rates. The first agreement has a notional amount of $30.0 million and expires March 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.12% per annum. The second agreement has a notional amount of $10.0 million and expires November 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.78% per annum. At December 31, the actual interest rate on the underlying debt instrument for both was 5.0% per annum. During 2009, the average interest rate paid (fixed rate) was 5.01% and the average interest rate received (floating rate) was .41%. As part of our credit facility we maintain financial covenants that are reported quarterly with current ratios, debt service coverage, interest coverage, and funded debt to EBITDA. At December 31, 2009, and throughout the year we were in compliance with the financial and non-financial covenants of our senior credit facility.

We have $10.4 million of our senior credit facility repayable in monthly installments in 2010 that we expect to pay from our operating cash. Further repayments are detailed in note 16 of our audited financial statements.

At December 31, 2009, we had a total of $1.0 million of unsecured subordinated notes with interest payable semi-annually at 12% per annum. The notes are redeemable by us after March 1, 2010. Subsequent to year end the Company repaid the $1.0 million unsecured subordinated note.

In April 2009 we issued $16.7 million in convertible unsecured subordinated redeemable debentures with interest payable semi-annually at 12% per annum. The debentures will not be redeemable on or before April 21, 2012 and mature June 30, 2014.

At December 31 2009, we had cash and cash equivalents of $58.5 million as compared to $28.6 million at December 31, 2008. Operations contributed $17.9 million as compared to $8.8 million in 2008. We funded the acquisition of insurance brokerages at the Network for $6.8 million, and we funded the acquisition of Agrifinancial for $20.1 million and the acquisition of HED for $36.8 million. We increased our capital assets by $4.0 million primarily in leasehold improvements and technology. The advances on long-term debt, net of repayments was $26.4 million which was used for acquisitions and we received $16.5 million net of financing costs with the issue of our convertible unsecured subordinated debentures and gross proceeds of $33.5 million with the issuance of our First Preferred Series 5 Shares. The combined change in investments, debt acquired with the acquisition of Agrifinancial, mortgages and customer deposits decreased cash by $12.7 million. We paid total cash dividends of $6.1 million on common and preferred shares. All of these factors resulted in an increase in cash in 2009 of $29.9 million.

CONTINGENT OBLIGATIONS
(in thousands, except for per share amounts)

In the normal course of business the Bank issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $10.2 million (2008 - $3.2 million) with $2.5 million in Agricard products, $2.4 million in Agrifinance products, $3.6 million in Commercial products, and $1.7 million in Dealer finance. We expected that customers will draw on approximately 50% these commitments.

Under the terms of the purchase agreement related to HED additional consideration may be granted in June 2010 and is based on certain financial results, operational success, and management decisions. The amount and outcome of contingent cash consideration related to HED cannot be reasonably estimated and has not been recognized in the financial statements at this time it is based on certain financial results, operational success, and management decisions.

Under the terms of the investment agreement with Jennings Capital Inc. additional voting shares can be sold to the Company contingent on certain financial covenants being met by Jennings Capital with certain restrictions on the number of shares to be sold to the Company in any given year. The amount and outcome of contingent consideration related to Jennings Capital Inc. for 2010 and subsequent years cannot therefore be reasonably estimated and has not been recognized in the financial statements.

Under the terms of property leases expiring between 2010 and 2014, the Company is committed to the following annual lease payments:

2010	$	4,373
2011	$	3,900
2012	$	3,436
2013	$	3,031
2014	$	2,709
2015 and thereafter	$	6,565

RELATED PARTY TRANSACTIONS
(in thousands, except for per share amounts)

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount. The Company has a 35% ownership in Jennings Capital Inc., and had a 49% ownership of HED prior to October 1, 2009. The following represent our related party transactions.

- Dividend income on preferred shares of $20 (2008 - $188) and income from equity investments of $570 (2008 – loss of $920) were recorded with respect to the Company's investment in Jennings Capital Inc.
- Notes receivable of $1,890 (2008 - $1,680) due from Jennings Capital Inc. These notes receivable are non-interest bearing and due on demand. Repayment of these notes has been postponed and they are subordinated to all other debt offerings.
- Underwriting fees of $184 (2008 - nil) were paid to Jennings Capital Inc., in connection with their participation in the Company's First Preferred Share Offering.
- Premiums of $128 (2008 - $98) were received from Jennings Capital Inc. for insurance policies placed through the Network.
- During 2009, short term loans and advances of $nil (2008 - $300) were made to an officer of the Company supported by a share pledge agreement and a promissory note. The balance of these short term loans and advances at December 31, 2009 was $225.
- Commissions of $1,191 (2008 - $225) were paid to Hayhurst Elias Dudek Inc. prior to October 1, 2009.
- Premiums of $7,188 (2008 - $1,297) were received from Hayhurst Elias Dudek Inc. prior to October 1, 2009.

OUTSTANDING SHARE DATA

At December 31, 2009 the balance of issued common shares was 49,367,049, for a total value of $117.2 million compared to $117.0 million at December 31, 2008. At the date of this report the balance of issued common shares was 49,367,049.

We have a rolling stock option plan under which we may grant options to directors, officers, shareholders and consultants to a maximum of 4% of the issued and outstanding common shares on a non-diluted basis at any time. There were 645,000 options outstanding at December 31, 2009.

In September, we issued 355,000 first preferred shares, Series 5 for gross proceeds of $35.5 million. Net proceeds from the offering will be used for general corporate purposes and to fund ongoing capital requirements of our subsidiaries. This issue of preferred shares will be entitled to fixed cumulative preferential cash dividends, if, as and when declared by our board of directors at a rate of $9 per share per annum. The dividends accrue from the date of original issue and are payable in equal installments of $4.50 per share on March 31 and September 30 of each year until, and including, March 31, 2015. They are convertible into our common shares at any time at the holder's option at a price of $2.81 per common share. The shares are redeemable by us at our option only after September 30, 2012. Redemption from September 30, 2012 and prior to September 30, 2014 will be at a redemption price equal to $100 per preferred share plus all accrued or declared and unpaid dividends, provided that the common shares are trading at a price in excess of 135% of the conversion price. On or after September 30, 2014, the preferred shares are redeemable at our option at any time at a redemption price equal to $100 per preferred share plus all accrued or declared and unpaid dividends. If not redeemed, commencing March 31, 2015, the preferred shares will pay semi-annual a cumulative dividend if, as and when declared by the board of directors, at a rate per annum calculated as at March 31, 2015 and reset on each anniversary of such date in an amount equal to 6.28% above the five year Government of Canada benchmark bond rate.

At December 31, 2009, we had the following preferred equity securities outstanding: 141,327 first preferred Series 2 shares outstanding with a principal value of $14.1 million and convertible into a maximum of 3,925,750 common shares; 250,000 first preferred Series 3 shares outstanding with a principal value of $25.0 million and convertible into a maximum of 3,448,276 common shares; 200,000 first preferred Series 4 shares outstanding with a principal value of $20.0 million, and convertible into a maximum of 2,898,551 common shares; and 355,000 first preferred Series 5 shares outstanding with a principal value of $35.5 million and convertible into a maximum of 12,633,452 common shares.

CRITICAL FACTORS AFFECTING RESULTS

The level of revenue and earnings from our operations depends on several factors. At the Network our results are affected by the number and type of P&C insurance products sold impacting premium volumes, basic commission levels paid to us for the sale of P&C insurance products, the amount of contingent commissions paid by our main P&C insurance providers, our ability to sell additional financial products and services to the existing customer base. At Western Life the results are affected by the number and type of insurance products sold impacting premium volumes, our ability to provide competitive products, the diversity of our distribution network, and the valuation of our investment products which back our actuarial liabilities. At Bank West the critical factors are loan volumes and the mix of products, interest margins, credit quality and the level of loan loss provisions, and our ability to offer competitive products through our deposit and loan broker network. At SecuriCan the results are affected by the number and type of insurance products, our ability to provide competitive products, and the valuation of our investment portfolio. At Corporate, critical factors are the returns on our corporate and financial investments and our ability to control and manage expenses. In addition to these factors the current economic environment and market conditions also affect the results of our Company.

REVENUE

A significant element of our revenue is the receipt of basic commissions from our P&C insurance providers. Basic commission levels vary by province and product but generally range from 5.0% to 25.0% of the premiums written and are typically paid at a rate of 12.5% for premiums sold for automobile insurance and 20.0% for premiums sold for property and liability insurance. As part of our overall agreements with our larger P&C insurance providers, we have negotiated various levels of contingent commissions, which are based on previous years' business written with that particular P&C insurer and are usually determined by profitability and volume. Furthermore, the Network's sales of complementary financial products and services such as banking products, life and health insurance products, group benefits, mutual funds and investment products also continue to grow.

In addition we generate revenues from several other sources. Sales of Bank West products and agency banking products such as GICs, loans, and Agricard have been growing steadily and have become a meaningful source of revenue, as are premiums generated through Western Life for group and individual life insurance, group health coverage, and creditor insurance.

A factor that may affect our results is the slow economic recovery but this is not expected to be material other than its potential impact on loan losses should credit conditions in our portfolios deteriorate further.

EXPENSES

Our expenses consist primarily of salaries and wages expense (which include benefits and bonuses) as well as overhead and administrative expenses. As our single largest expense is employee salaries and wages, any significant changes in this area will have a meaningful impact on our overall expenses. The largest portion of our expenses relates to operating the Network. We monitor the expenses through local budgets that are set by each of our branch offices and segments. These expense budgets are approved by our senior management and are monitored on an ongoing basis. As the Network is a broker, it does not bear any expense as a result of a customer making an insurance claim. The financial impact of insurance claims is a potential decrease in the contingent commission paid to us. However, as contingent commissions are paid to us based on the aggregate number of policies placed with a P&C insurer, only a very large individual loss could impact the overall contingent commission paid. We are able to manage this risk to a certain extent by placing quality business with the insurance companies but to the extent we have no control over events such as fire and losses related to weather condition we may be at risk of lower contingent commissions.

With the sale of life products actuarial liabilities are computed to properly match policy holder benefits and expenses to revenue. In negative economic conditions we may see an adverse impact from loan losses at Bank West. To mitigate these losses we monitor our loan portfolio and delinquencies weekly.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as at the financial year ended December 31, 2009. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2009 to provide reasonable assurance that material information relating to us, including its consolidated subsidiaries, would be made known to them by others within those entities. The Chief Executive Officer and the Chief Financial Officer will certify that the design and operating effectiveness of those disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As at the financial year ended December 31, 2009, the Chief Executive Officer and Chief Financial Officer evaluated the design of our internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operating effectiveness of internal control over financial reporting was effective as at December 31, 2009 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and the Chief Financial Officer will certify that the design of internal controls over financial reporting was effective.

There has been no change in our internal control over financial reporting that occurred during the most recent interim period ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CAPITAL MANAGEMENT

The objective of the Company's capital management policy is to maintain adequate levels of capital in order to meet regulatory capital requirements of its regulated subsidiaries, to support ongoing business growth and safeguard its ability to continue as a going concern so that it can continue to provide services to its customers and provide a return on its investments to its shareholders.

The Company's capital management framework is designed to:

- maintain adequate levels of capital in order to build long-term shareholder value;
- meet regulatory capital requirements of the Company's regulated subsidiaries;
- maintain leverage targets determined by the Board of Directors; and,
- support internal capital needs including funding of future business acquisitions.

Capital is comprised of common share capital, preferred share capital, contributed surplus, other paid in capital, and retained earnings. Regulatory capital includes the addition of subordinated debentures if certain thresholds are met, and is calculated based on the requirements of the regulations that are applicable to the particular business. Distributions of dividends by our regulated subsidiaries are restricted by regulatory capital rules.

The Company maintains capital levels above required needs to take account of normal business growth and increased volatility and uncertainty in current market conditions.

Bank West

The Office of the Superintendent of Financial Institutions Canada ("OSFI") requires banks to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the deemed credit risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is then calculated and compared to OSFI's standards for Canadian financial institutions. Off-balance sheet assets, such as the notional amount of derivatives and our credit commitments, are included in the calculation of risk-weighted assets. The credit risk equivalent and the risk-weighted calculations are prescribed by OSFI.

The current Basel II regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%; 4% of this must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). OSFI has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. OSFI has also established an Asset to Regulatory Capital Multiple, which should not exceed a maximum level prescribed by OSFI, which varies from institution to institution.

	2009	2008
Tier 1 Capital		
Retained earnings (losses)	$ (1,938)	$ (1,604)
Capital stock	69,112	26,112
Less goodwill	(11,477)	(3,578)
Total	55,697	20,930
Tier 2 Capital		
Subordinated debentures	3,000	10,753
Total Regulatory Capital	$ **58,697**	$ 31,683
Regulatory Capital to Risk-Weighted Assets		
Tier 1 Capital	17.7%	9.9%
Tier 2 Capital	1.0%	5.0%
Total Regulatory Capital Adequacy Ratio	**18.7%**	14.9%
Assets to Regulatory Capital Multiple	**6.9**	11.7

During the 4th quarter of 2009, the Bank's capital ratio did not meet the internal target capital level agreed with OSFI, although the capital ratio remained in excess of 10%. In December 2009, the Bank issued a subordinated note for $3.0 million to the Company which qualifies at Tier 2 capital. As at December 31, 2009, the Bank was in compliance with the internal target capital level. The Bank has established a process to ensure that the required capital level is maintained.

The Bank's capital management and regulatory compliance is monitored by the Board through its Audit and Risk Management Committee. The Board reviews and approves the securities portfolio management policies and lending policies and their impact on capital based on the recommendation of the Audit and Risk Management Committee and of ALCO. The investment strategy, holdings, limits and performance are monitored monthly by ALCO. Quarterly, management provides a detailed report of the loan, investment and securities portfolios and their performance and impact on capital. The Audit and Risk Management Committee reviews the securities portfolio and any non-compliance on a quarterly basis.

Western Life

The regulatory Minimum Continuing Capital and Surplus Requirements ("MCCSR") rules, set by OSFI, contain detailed instructions for determining the amount of regulatory capital that a life insurance company is required to maintain in respect of its business activities. Companies are required to maintain an MCCSR ratio of at least 150%. Western Life has an MCCSR of 230% and monitors its MCCSR on a monthly basis. Western Life was in compliance with these requirements throughout the year.

Coupled with monitoring its MCCSR, the Company performs a Dynamic Capital Adequacy Test ("DCAT"), as part of the annual business plan and budgeting process. The DCAT tests various financial scenarios and their potential impact on Western Life's capital and solvency. The 2009 DCAT performed by the Appointed Actuary, dated October 27, 2009, reported no solvency concerns.

SecuriCan

As a result of being a Canadian property and casualty insurance company, SecuriCan is subject to regulation by OSFI. OSFI requires Canadian property and casualty insurance companies to maintain a level of capital sufficient to achieve a target of 150% based on a Minimum Capital Test (MCT) ratio. As at December 31, 2009, SecuriCan had a MCT of 422% and was in compliance with the minimum capital required.

REGULATION

The industries in which we operate are regulated Federally and or Provincially for the sale of all P&C insurance, banking products, life and health insurance products, and investments. Changes in these regulations may significantly affect our operations and financial results.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Our consolidated financial statements are prepared in accordance with Canadian GAAP as further described in Note 2 of our audited financial statements. These accounting policies require our management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to impairment of investments, the allowance for loan losses, actuarial liabilities, the valuation of financial instruments measured at fair value, the valuation of goodwill and intangibles, the useful life of intangible assets, the allocation of purchase price to goodwill and intangible assets. Estimates are based on our management's experience, terms of contracts and policies, observation of industry trends and information provided by outside sources. These estimates are more fully discussed below.

ALLOWANCE FOR LOAN LOSSES

Bank West has an allowance for loan losses for the portfolio of mortgages and loans that it provides to individuals and businesses, which is management's best estimate of the credit losses inherent in the portfolio at the balance sheet date. Management's estimate will consider but is not limited to:

The size of the portfolio
Geographic concentration
Underwriting policies
Percentage of loan type compared to total portfolio
Credit requirements of each loan type
Loan to asset value when underwritten
Historical losses
Current changes in delinquencies
Current economic conditions
Guarantees, cash security or insurance
Collections
Credit documentation
Risk rating

Assessing and determining an allowance is challenging due to the number of uncertainties. A general allowance is provided for to address these uncertainties. At December 31, 2009 Bank West had a total allowance for credit losses of $5.4 million (2008- $2.0 million) which included a specific allowance of $2.4 million (2008- $600,000). The general allowance is re-assessed monthly and fluctuates as a result of various factors including changes in portfolio volumes, concentrations and risk profile and analysis of evolving trends. Changes in this estimate will impact the net interest income portion of revenue reported by Bank West.

IMPAIRMENT OF INVESTMENTS

The Company's policy is to assess impairment considering a number of factors such as existing market conditions, what economists are reporting for future market conditions, the type of security held, and the strategy to hold or divest of the investment. In addition management considers the percentage of the decline of fair value below cost and the length of time the investment has shown a decline and other factors listed on page 33.

ACTUARIAL LIABILITIES

The actuarial liabilities at Western Life have been determined by the Appointed Actuary using the Canadian Asset Liability Method involving the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of withdrawal. The actuarial liabilities at SecuriCan are based on a Selected Claims payment pattern. The process of determining actuarial liabilities necessarily involves the risk that actual results may vary from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Certain of our financial instruments are carried on the balance sheet at fair value. The initial recognition at fair value of the financial instrument is the consideration paid or received. Subsequent to initial recognition the financial instrument is re-measured at fair value by unadjusted quoted prices in active markets, inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, or inputs that are not based on observable market data. Management must determine if any impairment of AFS investments is other than temporary. Available for sale securities are assessed regularly to determine whether there is objective evidence that the asset is impaired and the decline in fair value is other than temporary (see "impairment of investments" above).

GOODWILL

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment at least annually by comparing the fair value of each reporting segment to its book value. The fair value of a reporting segment is estimated using revenue and earnings multiples that have been observed in the relevant industry, and the fair value of the reporting segment to its book value. An independent valuation was performed for the acquisition of AgriFinancial and HED which supported the fair values acquired including goodwill on acquisition. At December 31, 2009 our internal impairment valuation and an independent review of its results, confirmed there was no impairment to goodwill required in the financial statements.

INTANGIBLE ASSETS

Intangible assets relate primarily to purchased customer contracts and related customer relationships and are being amortized on a straight-line basis over the estimated life of the asset. For the Network, we have relied on our past experience with respect to customer retention in determining a 30-year average life for purchased customer contracts and the related relationships. Customer retention rates may change over time based on competition in our markets. Any changes in retention rates would result in changes to the useful life and annual amortization expense. For Bank West, intangibles acquired have been conservatively amortized over a 5-year life to reflect the average length of acquired customer contracts. We annually assess whether the life of the intangible asset is appropriate as well as test for impairment by comparing the carrying amount to its fair value. Indefinite-life assets are also subject to impairment tests under Canadian GAAP on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. An internal impairment test was performed along with an independent review and it was concluded that as at December 31, 2009 the fair value of the intangible exceeds the book value and has not been impaired.

ALLOCATION OF THE PURCHASE PRICE OF AN ACQUISITION

When we acquire a business, the purchase price allocated to the assets acquired and the liabilities assumed are based on their fair values. Any excess of purchase price over identified assets and liabilities is allocated to goodwill. The fair value of assets, including intangible assets, is determined using valuation methods including net realizable value and discounted cash flows. The use of assumptions, which are based on our management's judgment, is inherent in the application of these valuation methods. The use of different judgments, estimates and valuation methods may result in different allocations of the purchase price and, as a result, different results of operations. An independent valuation was obtained to support the valuation and allocation of the purchase price for the acquisition of AgrFinancial and HED.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangibles

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standard, Section 3064 – Goodwill and Intangibles, replacing section 3062 – Goodwill and Other Intangible Assets. The new standard establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. The adoption of the guidance did not result in a change in the treatment of the Company's intangible assets. This standard has been adopted retrospectively.

Credit Risk and Fair Value

Effective January 1, 2009, the Company adopted the CICA's Emerging Issues Committee ("EIC") Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Company's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Company.

Financial Instruments – Disclosures

Effective January 1, 2009, the Company adopted CICA amendments to Section 3862, Financial Instruments – Disclosures. These amendments require enhanced disclosures over fair value measurements of financial instruments and liquidity risks. The additional disclosures over fair value measurements include categorization of fair value measurements into one of three levels, ranging from those fair value measurements that are determined through quoted market prices in an active market to those fair value measurements that are based on inputs that are not based on observable market data. See note 25 of our audited financial statements. The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as maturity analysis for derivative financial liabilities.

Future Impact of Recently Issued Accounting Standards

International Financial Reporting Standards ("IFRS")

The CICA will transition Canadian GAAP for publicly accountable entities to IFRS. The Company's consolidated annual and interim financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparative information for the prior year.

The Company has commenced a four phase project to identify and evaluate the impact of the implementation of IFRS on the consolidated financial statements and develop a plan to complete the transition. The project plan includes the following phases:

- Preliminary plan and scoping;
- detailed assessment, conversion planning and development;
- implementation and parallel reporting; and,
- ongoing monitoring and IFRS updates.

The preliminary plan and scoping phase is complete. In the detailed assessment, conversion planning and development phase the Company is in the process of:

- Identifying the significant differences between IFRS and Canadian GAAP;
- assessing the impact of the conversion on business portfolios, processes, systems and policies; and,
- identifying additional disclosure required.

In the detailed assessment, conversion planning and development phase of the project the initial high-level survey of potential impact areas for the Company includes the first time adoption of IFRS, financial statement disclosures and presentation, loan loss provisions, insurance contracts and disclosures, employee future benefits, classification of preferred shares and convertible subordinated debentures, stock based compensation, impairment of long lived assets, intangible assets and goodwill, and business combinations.

Management has focused on the initial analysis assessment on the above impact areas identifying those areas requiring changes to existing processes, systems, and disclosures. The initial evaluation and assessment has been completed and management has also completed its preliminary review of the quantitative impact of each area. We do not see a material impact except in the area of disclosure at this time.

Management is monitoring any corporate changes in financing, acquisitions, and dependencies on third parties for applicability in this review. This would include but is not limited to our key business application providers.

We also continue to monitor and review current external information for possible addition and inclusion of any other policy or statement that would be material to the Company.

We recognize that the IFRS are not static and that the International Accounting Standards Board ("IASB") has been undertaking a significant program to reform many of the existing standards. The Company will need to ensure that it evaluates current standards as well as those standards that the IASB may change during the course of our project.

Although the Company has focused its evaluation and analysis of existing Policies and Statements it is prepared to adopt these changes and if required adapt its systems.

RISKS INHERENT IN OUR BUSINESS

Effective risk management is fundamental to our ability to protect the interest of our shareholders and is required in order to comply with various regulatory requirements applicable to our operations. Our management oversees and manages our risk along with oversight and advice from both our audit and risk committee and those of Bank West, Western Life, and SecuriCan. We perform an analytical review of our operations during our quarterly reviews and involve every level of our management in our monthly reporting.

ACQUISITIONS AND GROWTH RISK

Our growth plans depend in part upon the ongoing acquisition, at reasonable prices, of independent brokers and other businesses. To meet our growth plans an adequate number of acquisition candidates must be available at prices which will allow us to operate on a profitable basis. We may determine that current market or pricing conditions in the P&C insurance brokerage industry make future acquisitions uneconomical, or that the available acquisition opportunities are not sufficiently attractive to us. Moreover, we may not be able to finance such acquisitions as additional capital may not be available or may not be available on commercially acceptable terms.

To manage any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain our employees. There can be no assurance that we will be able to manage such growth effectively, that our management, personnel or systems will be adequate to support our operations or that we will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth, and failure to do so could have a material adverse effect on our business, financial condition and results of operations.

As part of our growth strategy, we seek to cross-sell multiple lines of business to existing customers. This strategy may not result in achieving our desired growth. Due in part to the decentralized nature of our operations and regulatory rules which we may have difficulty executing with our employees on our sales management program and cross selling strategy. In addition, we may have difficulty integrating acquired operations and newly hired employees into our sales management program and cross selling strategy.

We have identified approximately 100 target communities (that we estimate have 400 brokers) for future expansion in the next two to four years. There is no assurance that we can complete acquisitions in any of these communities within the estimated time frame or at all. With the current market environment we expect our growth strategy to take longer than anticipated. We finance acquisitions through our senior credit facility and financings in the market. If capital is difficult to raise at a price that would make an acquisition accretive it would not be prudent in the current environment for us to proceed. Extending the time frame for the future expansion is not a risk to us.

Although we conduct due diligence in respect of the business and operations of each of the businesses we acquire, we may not have identified all material facts or risks concerning these businesses. Unanticipated events or liabilities relating to these businesses could have a material adverse effect on our financial condition. Furthermore, once we have integrated an acquired business, it may not achieve levels of revenue, profitability, or productivity comparable to our existing locations, or otherwise perform as expected. Our failure to succeed in our growth strategy or to integrate one or more acquired business so that it achieves our performance goals may have a material adverse effect on our results of operations and financial condition.

CAPITAL FUNDING RISK

We will, from time to time, require additional financing to continue to grow our business. Our ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing, if needed, on terms satisfactory to us. If additional financing is raised by the issuance of common shares from treasury our control may change and our shareholders may suffer additional dilution. In the current economic environment it has become challenging to raise capital that would make an acquisition accretive. In addition, with the negative impact on share prices in the capital markets at this time, any issuance of equity by us could be excessively dilutive to existing shareholders. From time to time we may enter into transactions or expend funds in a manner which may be financed partially or wholly with debt and may increase our debt levels above industry standards.

CREDIT RISK

We are exposed to credit risk with respect to certain of our marketable securities, accounts receivable, and mortgages and loans receivable. We only invest in Canadian corporations and institutions with large capitalization to reduce credit risk; however, changing economic conditions or the change in the financial condition of the issuer of the securities can result in increased defaults by the issuer whose securities we own. Credit risk associated with our accounts receivable is minimized by our large and diverse customer base, which covers all consumer and business sectors in Western Canada. However, we cannot ensure that our debtors will pay our accounts receivable on a timely basis or at all which could have a material adverse effect on our results of operations and financial condition.

Credit risk associated with Bank West's mortgages and loans is mitigated through conservative underwriting policies, charges against real property and mortgage insurance; however, we cannot ensure that Bank West's borrowers will pay these loans or mortgages on a timely basis or at all or that any associated security held will be sufficient to cover the amount of any indebtedness. At December 31, 2009 approximately 3% of Bank West's loans and mortgages were cash secured or government guaranteed. In 2009 we have increased our allowance for loan losses to reflect the current credit and market conditions along with the deterioration in creditworthiness of some of our borrowers. As a result, failure to repay these amounts could have a material adverse effect on our results of operations or financial condition.

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss. The most significant assets giving rise to credit risk is the mortgage, loan and lease portfolio. The Company's maximum exposure to credit risk at December 31 is summarized in the following table, in $ thousands.

	2009	2008
Cash and cash equivalents	$ 58,463	$ 28,563
Securities - held-for-trading	61,373	53,091
Securities - available-for-sale	30,901	103,808
Mortgages, loans and leases	355,621	272,135
Interest rate swaps	90	-
Accounts receivable	51,114	23,999
Total balance sheet maximum credit exposure	557,562	481,596
Bank West credit commitments (Note 7)	10,155	3,235
Maximum credit exposure	$ 567,717	$ 484,831

Restricting both the type and the term of investments mitigates securities risk. To reduce credit risk, the Company only invests in Canadian corporations and institutions with large capitalization and acceptable liquidity. Investments are reviewed monthly by management and reviewed quarterly by the Investment Committee and management.

The credit quality of the Company's securities at December 31 is described in the following table, in $ thousands.

	2009		2008	
	Held For Trading	Available For Sale	Held For Trading	Available For Sale
Securities:				
Bonds - AAA rating	$ 15,432	$ 6,230	$ 12,552	$ 2,513
Bonds - AA rating	26,526	2,506	23,682	3,416
Bonds - A rating	16,906	4,081	13,718	513
Bonds - below A rating	-	209	-	-
Bonds - BBB rating	204	-	-	-
Pooled funds	-	3,630	-	-
Fixed income exchange funds	-	2,994	-	-
Equity pooled funds	-	-	-	9,882
Preferred shares - P-1 rating	-	-	-	2,836
Term deposits	-	7,574	-	-
Subordinated debentures	-	500	-	-
Treasury bills	2,305	3,177	3,139	84,648
	$ 61,373	$ 30,901	$ 53,091	$ 103,808

Income pooled funds are funds that invest in Canadian bonds, preferred shares, trusts and common stock. Fixed income exchange funds are funds that invest in Canadian government and high grade bonds. Equity pooled funds are funds for long-term capital gain and dividend income from larger Canadian companies. The term deposits are held at major Canadian financial institutions.

The credit quality of the Company's mortgage, loan and lease portfolio at December 31 is described in the following table, in $ thousands.

	Residential and commercial mortgages	Consumer loans	Commercial loans	Credit cards	Leases	Total
Mortgages and loans						
Neither past due nor impaired	$ 55,685	$ 184,807	$ 23,944	$ 30,395	$ 48,169	$ 342,999
Past due but not impaired						
Past due less than 90 days	1,530	1,330	981	4,204	2,422	10,467
Past due 90 to 179 days	-	196	-	-	58	254
Non-performing loans (past due greater than 90 days and other identified impaired loans)	2,768	1,701	268	263	2,275	7,275
Gross carrying value	59,983	188,034	25,193	34,862	52,924	360,996
Specific provision	225	850	263	96	920	2,354
General provision						3,021
Net carrying value at December 31, 2009						**$ 355,621**
Net carrying value at December 31, 2008						**$ 272,135**

$283 of the past due mortgages, loans and leases were renegotiated during 2009.

During 2009, loans with a carrying value of $7.3 million were determined to be impaired based on uncertainty as to the full repayment of the outstanding principal balance.

Credit risk with respect to mortgages, loans and leases is mitigated through conservative underwriting policies and charges against real property that reduce the Company's risk exposure on these loans. To diversify this risk, the Company limits exposure to a single borrower or associated borrowers, unless approved by the board of directors, to a specific maximum. The Company employs and is committed to a number of important principles to manage credit exposures, which include:

- a Credit & Risk Subcommittee whose duties include the approval of lending policies, establishment and delegation of lending limits;
- delegated lending authorities, clearly communicated to all personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by a senior management group prior to recommendation to the Credit & Risk Subcommittee;
- credit policies, guidelines and directives, which are communicated to all branches and officers whose activities and responsibilities include credit granting and risk assessment;
- a standardized credit risk rating classification established for all credits and reviewed not less than annually;
- annual reviews of individual credit facilities (except consumer loans and single-unit residential mortgages);
- quarterly review of risk diversification by geographic area, industry sector and product measured against assigned portfolio limits;
- early recognition of problem accounts and immediate implementation of steps to protect safety of Bank funds; and
- completion of a watch list report recording accounts with evidence of weakness and an impaired loan report covering loans that show impairment to the point where a loss is possible.

The Company holds security related to mortgages, loans and leases in the form of real property, mortgage insurance, and liens on equipment and vehicles. Mortgages are fully collateralized by real property. Certain of the residential mortgages are insured through Canada Mortgage and Housing Corporation amounting to $9.9 million (2008 - $18.8 million).

Credit risk with respect to accounts receivable is minimized by the Company's large customer base, which covers all consumer and business sectors in BC, AB, MB and SK. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics arising from factors such as economic or geographic regions or similar industries. The Company mitigates this risk through diversification requirements.

Western Life

Reinsurance risk is defined as the failure of reinsurers to honour their obligations resulting in losses to the Company. Maximum benefit amount limits per insured (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits. Reinsurance contracts do not relieve Western Life from its obligations to policyholders. Western Life has agreements with a number of reinsurers and evaluates the ratings of reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. As a result of reinsurance, actuarial liabilities have been reduced by $19.6 million (2008 - $16.7 million). At December 31, reinsurance companies assuming more than 10% of ceded liabilities were (in $ thousands):

		2009		2008
Optimum Reassurance Inc.	$	11,373	$	11,014
RGA Life Reinsurance Company of Canada	$	7,640	$	4,629

The following table summarizes the receivables due from Canadian reinsurers as at December 31 by risk rating in $ thousands.

Credit Rating	Reinsurance Receivable			
		2009		2008
A- (Excellent)	$	1,318		409
A+ (Superior)		725		209
A++ (Superior)		50		-
	$	2,093	$	618

Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. Western Life places its current new business with registered reinsurers. The group of reinsurers that Western Life cedes to has an A.M. Best rating from A- (Excellent) to A++ (Superior). No information has come to management's attention indicating weakness or failure of any of its current reinsurers therefore no provision has been made in the accounts for doubtful collection.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fund all cash outflow requirements as they fall due.

The Company manages this risk through management of cash flows as well as its concentration and maturities of assets and liabilities. Operating liquidity needs of the Company are evaluated daily and projected forward 30 days. Long term liquidity needs are managed through cash flow analysis of assets and liabilities – forecasting earned and required yields, to ensure future cash flows to support obligations.

Based on the Company's historical cash flows and financial performance, management believes that the Company's cash flows from operations will continue to provide sufficient liquidity to satisfy its obligations.

The mandate of the Bank's Asset and Liability Committee ("ALCO") is to ensure proper and prudent liquidity management in accordance with industry and regulatory guidelines and Board policy. In order to actively manage liquidity risk, ALCO meets on a weekly basis to:

- construct and assess the probability of various scenarios involving shocks to liquidity and interest rates, and position the Bank to handle such scenarios and contingencies at minimum cost, while maintaining profitability;
- set lending and deposit rates from time to time;
- monitor current and projected Treasury cash flows and modify deposit/loan flows as appropriate to maintain liquidity;
- on an ongoing basis review policies established for investment and securities portfolio management; evaluate investment holdings performance for their support of investment strategy, and recommend revisions, where appropriate, to the Board through the Audit and Risk Management Committee;
- evaluate, on an ongoing basis, the mix and balance of the Bank's assets and liabilities, including capital, and adjust as appropriate to Board policy;
- report at each meeting of the Audit and Risk Management Committee (and through it to the board of directors) on the status of risk and liability management matters.
- approve terms, amortization, interest rates, commitment periods, early repayment privileges and other options for new asset and liability products which may impact liquidity or interest rate risks of the Bank.

Western Life's and SecuriCan's Investment Committees along with senior management ensures that prudent cash management and investment practices are followed in accordance with Board policy and statutory requirements.

The following table presents the contractual maturities of the Company's financial assets and liabilities, at December 31, in $ thousands.

	Within 1 year	Over 1 to 2 years	Over 2 to 4 years	Over 4 to 10 years	Over 10 years	Total
Cash and cash equivalents	$ 58,463	$ -	$ -	$ -	$ -	$ 58,463
Securities	21,420	12,196	13,362	16,130	29,166	92,274
Mortgages, loans and leases	118,292	40,022	107,224	93,693	-	359,231
Interest rate swap	-	-	-	90	-	90
Accounts receivable	51,114	-	-	-	-	51,114
	249,289	52,218	120,586	109,913	29,166	561,172
Customer deposits	136,536	95,424	85,796	197	-	317,953
Actuarial liabilities	221	723	1,954	5,430	31,704	40,032
Provision for unpaid and unreported claims	10,813	1,555	1,034	517	-	13,919
Accounts payable and accrued liabilities	82,700	-	-	-	-	82,700
Debt	10,417	9,406	18,821	41,127	-	79,771
Due to policyholders	-	-	-	-	20,392	20,392
	240,687	107,108	107,605	47,271	52,096	554,767
At December 31, 2009	**$ 8,602**	**$ (54,890)**	**$ 12,981**	**$ 62,642**	**$ (22,930)**	**$ 6,404**

See note 7 in our audited financial statements for cash flow commitments related to property leases.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk, and other price risk.

The Company has no material exposure to foreign currency risk.

Interest rate risk, or sensitivity, is defined as the impact on net income, both current and future, resulting from a change in market interest rates. This risk and potential variability in earnings arises primarily when cash flows associated with interest sensitive assets and liabilities have different repricing dates.

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. The Company's policy is to invest in quality rated bonds and short term investments, providing liquidity and appropriate asset matching.

The Company enters into interest rate swaps from time to time in order to reduce the impact of fluctuating interest rates on its debt. See note 16 in our audited financial statements. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company accounts for swaps as a cash flow hedge for accounting purposes. The effective portion of the change in value of the hedging derivative is recognized in OCI, net of tax, and any ineffective portion is recognized in net income. The amounts accumulated in OCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

During 2009, the Company entered into two interest rate swap agreements to manage interest rate risk on $40.0 million of its bank debt. The actual amount of gain or loss on these hedges will fluctuate with current interest rates.

The first agreement has a notional amount of $30.0 million and expires March 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.12% per annum. The second agreement has a notional amount of $10.0 million and expires November 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.78% per annum. At December 31, the actual interest rate on the underlying debt instrument for both was 5.0% per annum. As a result, the Company has recorded $1.1 million as interest expense for the year, related to these agreements. During 2009, the average interest rate paid (fixed rate) was 5.01% and the average interest rate received (floating rate) was .41%

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its bank term loans payable. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of the Bank that are scheduled to mature or re-price on particular dates. The Bank uses gap analysis to measure this risk. To manage interest risk, the ALCO establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's position and to decide future strategy. The goal is to manage the interest rate risk within prudent guidelines. Interest rate risk policies are reviewed at least annually by the Board, with quarterly reporting to the Board as to the gap position.

The gaps which existed, for the Bank, at December 31 based on the maturity date of interest rate sensitive instruments are detailed as follows, in $ thousands:

As at December 31, 2009

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets									
Cash and securities	$ 14,815	$ 5,004	$ -	$ 500	$ -	$ -	$ -	$ -	$ 20,319
Mortgages, loans and leases	21,718	96,034	40,022	59,213	48,011	44,479	39,540	6,064	355,081
Other assets	-	-	-	-	-	-	-	22,345	22,345
Total assets	$ 36,533	$ 101,038	$ 40,022	$ 59,713	$ 48,011	$ 44,479	$ 39,540	$ 28,409	$ 397,745
Liabilities and Equity									
Current liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,077	$ 16,077
Deposits	351	132,730	95,424	77,460	8,336	197	-	-	314,498
Shareholders' equity	-	-	-	-	-	-	-	67,170	67,170
Total liabilities and equity	$ 351	$ 132,730	$ 95,424	$ 77,460	$ 8,336	$ 197	$ -	$ 83,247	$ 397,745
Interest rate sensitive gap	$ 36,182	$ (31,692)	$ (55,402)	$ (17,747)	$ 39,675	$ 44,282	$ 39,540	$ (54,838)	$ -
Cumulative gap	$ 36,182	$ 4,489	$ (50,912)	$ (68,659)	$ (28,984)	$ 15,298	$ 54,838	$ -	
Cumulative gap as a percentage of total assets	9.10%	1.13%	-12.80%	-17.26%	-7.29%	3.85%	13.79%	0.00%	

As at December 31, 2008

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Cumulative gap	$ 123,150	$ 24,704	$ 1,396	$ (30,078)	$ (8,100)	$ 19,652	$ 964	$ -	-
Cumulative gap as a percentage of total assets	32.65%	6.55%	0.37%	-7.97%	-2.15%	5.47%	5.47%	0.00%	

Mortgage, loan and lease prepayments are assumed to be nil and the gap is sensitive to this assumption.

The effective, weighted average interest rates for each class of financial asset and liability are shown in the following table.

As at December 31, 2009

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets									
Cash and securities	0.0%	0.1%	0.0%	11.9%	0.0%	0.0%	0.0%	0.0%	1.8%
Mortgages, loans and leases	2.8%	8.6%	7.3%	7.6%	7.5%	7.3%	5.6%	0.0%	6.6%
Other assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total assets	2.8%	8.2%	7.3%	7.7%	7.5%	7.3%	5.6%	0.0%	6.6%
Liabilities									
Current liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits	0.8%	3.1%	4.3%	4.0%	4.6%	3.8%	0.0%	0.0%	2.9%
Total liabilities	0.8%	3.1%	4.3%	4.0%	4.6%	3.8%	0.0%	0.0%	2.9%
Interest rate sensitive gap	2.1%	5.1%	3.0%	3.6%	2.9%	3.4%	5.6%	0.0%	3.7%

As at December 31, 2008

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Total assets	3.1%	3.4%	6.3%	6.9%	7.6%	7.3%	6.3%	0.0%	5.0%
Total liabilities	0.8%	4.1%	4.5%	4.7%	4.8%	2.0%	0.0%	0.0%	3.3%
Interest rate sensitive gap	2.4%	-0.8%	1.9%	2.2%	2.7%	5.3%	6.3%	0.0%	1.7%

Based on the current interest rate gap position, it is estimated that a 100 basis point increase in all interest rates would increase net interest income by approximately 5.5% or $485,000 (2008 – 14.4% or $868 increase to net interest income) and decrease other comprehensive income $36,000 (2008 - $8,000) net of tax, respectively over the following twelve months. A 100 basis point decrease in all interest rates would increase net interest income by approximately 80% or $7.2 million (2008 – 48% or $2.9 million decrease to net interest income) and decrease other comprehensive income $33,000 (2008 - $180,000) net of tax.

Western Life

The actuarial assumption most susceptible to change in the short run is future investment returns. Under the prescribed valuation method, CALM, alternate interest rate scenarios are tested producing alternate policy liabilities for Individual Life insurance. The liability that is held is based on the interest rate scenario that produces the highest liability. The sensitivity to interest rate changes is, therefore, reflected in the development of the policy liabilities.

The liability produced for the base scenario is $31.4 million (2008 - $30.4 million) compared to the highest liability produced of $34.1 million (2008 - $32.2 million) – an increase of $2.7 million (2008 - $1.8 million). The highest liability results from a temporary 2.0% reduction from current rate.

Based on the current interest rate gap position, it is estimated that a 100 basis point increase in all interest rates would decrease net income by ($816,000) and decrease other comprehensive income by ($333,000), net of tax. A 100 basis point decrease in all interest rates would increase net income by $940,000 and increase other comprehensive income by $375,000.

SecuriCan

Because most of SecuriCan's securities portfolio is comprised of fixed income securities, changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. In addition, changes in interest rates will affect the market value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Because investments are classified as available-for-sale, these increases and decreases in fixed income securities will result in corresponding increases and decreases in other comprehensive income until the securities are sold and any gain or loss is realized. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount unpaid claims and adjustment expenses. Consequently, changes in interest rates will affect the carrying value of the unpaid claims and adjustment expenses. During periods of rising interest rates, the carrying value of unpaid claims and adjustment expenses will generally decrease and net income will increase. During periods of declining interest rates the opposite is true.

The approximate impact of an increase of 100 basis points in the interest yields would decrease the unpaid claims and adjustment expenses provision and increase the income (pre-tax) of the Company by $3,000 (2008 - $3,000) and decrease investments and other comprehensive income before income taxes of the Company by $198,000 (2008 - $80,000). The approximate impact of a decrease of 100 basis points in the interest yields would increase the unpaid claims and adjustment expenses provision and decrease the income before income taxes of the Company by $3,000 (2008 - $3,000) and increase investments and other comprehensive income before taxes of the Company by $180,000 (2008 - $80,000).

Other price risk is the risk that the fair value and/or future cash flows of the Company's pooled fund holdings fluctuate because of changes in market prices. Investments are reviewed monthly by management and reviewed quarterly by the Investment Committee and management. The Company monitors its pooled fund holdings relative to equity market conditions and reviews the performance of pooled fund investments against relative benchmarks. A 5% change in price equates to an impact of $182,000 on the fair value, with an offsetting amount recorded in OCI (pre-tax).

In addition to credit risk, liquidity risk and market risk, the Company is also exposed to product and pricing risk and underwriting and liability risk through its subsidiary, SecuriCan.

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. SecuriCan prices its products by taking into account several factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

SecuriCan may choose to adjust pricing below what it feels is acceptable to maintain a competitive position. However, SecuriCan strives to maintain a pricing level that ensures it is able to produce an acceptable return.

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the adjudication of claims, and the management of contractual and non-contractual product options.

SecuriCan has specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract in all jurisdictions. These guidelines are developed in consideration of provincial underwriting rules. SecuriCan continually reviews its underwriting rules and compliance with evolving provincial regulation on restricted criteria. SecuriCan considers stability, fairness and the expectations of its existing and potential policyholders when making deliberate changes to its underwriting rules.

CONTINGENT COMMISSIONS

Many P&C insurance companies pay us contingent commissions for achieving profitability and premium volume goals set by them and/or based on the loss experience of the insurance we place with them. We generally receive contingent commissions in the first and second quarters of each year in respect of contingent commissions earned in the previous year. We are able to estimate the contingent commissions throughout the year based on the losses we incur in the year and our premium volumes. We are able to manage this risk to a certain extent by placing quality business with the insurance companies but to the extent we have no control over events such as fire and losses related to weather conditions we may be at risk of lower contingent commissions. We have no control over the ability of P&C insurance companies to estimate loss reserves, which is a factor that affects the amount of contingent commissions that we will ultimately receive. In addition, because no significant incremental operating costs are incurred when contingent commissions are realized, a significant decrease in contingent commissions can cause a corresponding decrease in net income and would consequently have a negative impact on our financial results. This could limit our ability to incur and service debt and comply with financial covenants in our existing credit facility and could have a material adverse effect on our business, financial condition and result of operations.

REGULATION

Our businesses are highly regulated through various Federal, Provincial, and Securities regulators.

Our insurance and investment operations depend on our continued good standing under the licenses and approvals pursuant to which we operate. In all jurisdictions, the applicable licensing laws and regulations are subject to amendment or interpretation by regulatory authorities, and generally such authorities are vested with relatively broad and general discretion as to the granting, renewing and revoking of licenses and approvals. There can be no assurance that we will be able to obtain or retain all required licenses or that the cost of complying with these regulations will not increase. Any increase in the cost of complying with government regulation will have a negative effect on our operating results, as will the loss or inability to obtain any material license required to operate the business.

Changes to laws or regulations, including the adoption of generous consumer protection measures or other initiatives regarding contingent or other commissions or rates charged for automobile insurance or claims handling procedures, could materially adversely affect our business, results of operations and financial conditions.

Bank West, Western Life, and SecuriCan could be subject to regulatory actions, sanctions and fines if a regulatory authority believed they had failed to comply with any applicable law or regulation. Our businesses are required to comply with Anti-Money Laundering and Terrorist Financing (AMLATF) regulations. There are various levels of compliance and reporting dependent on the business of the subsidiary.

Where the Office of the Superintendent of Financial Institutions (OSFI) is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a bank or a federal insurance company, the Superintendent may direct the bank or insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a bank or insurance company or take control of the bank or insurance company. With the current events in the economy all regulated financial institutions have seen increased communication from OSFI primarily with monitoring of our liquidity and capital requirements. For 2009 we are in compliance with all capital requirements with Western Life and SecuriCan. During the 4th quarter of 2009, the Bank's capital ratio did not meet the internal target capital level agreed with OSFI, although the capital ratio remained in excess of 10%. In December 2009, the Bank issued a subordinated note for $3.0 million to the Company which qualifies at Tier 2 capital. As at December 31, 2009, the Bank was in compliance with the internal target capital level.

More restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive. Specifically, recently adopted legislation addressing privacy issues, among other matters, is expected to lead to additional regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

INSURANCE PRODUCTS

Our operations and success depend in part upon access to products sold by Canadian and international insurance companies. Our existing brokerage contracts with certain insurance companies do not have a set term or expiry date, but may be terminated by either party with between 90-120 days' written notice, depending on the specific contract. To reduce this risk, we have entered into business development agreements with a number of major Canadian insurance companies. Our ability to carry on business is dependent on our continuing ability to attract and maintain relationships with these insurance companies. However, other than pursuant to these agreements, there can be no assurance that we will continue to have access to such insurance products.

An inability to maintain or obtain access to insurance products would have a negative impact on us. Although we can obtain replacement business for departing insurance companies, the loss of such business, particularly of a major current provider, could have a material adverse effect on our business, financial condition and results of operations.

Further, any significant decrease in the premium rates, volume, or basic or contingent commissions paid in the segments of the insurance industry in which we operate can adversely impact us.

COMPETITION

Our performance is impacted by the level of competition in the markets in which we operate. Each of our businesses operate in highly competitive markets. Customer retention may be influenced by many factors, including relative service levels, the prices and attributes of products and services, changes in products and services, and actions taken by competitors.

DEPENDENCE ON KEY PERSONNEL

Our success is largely dependent on the performance of our key employees and senior management. Failure to retain our key employees or to attract and retain additional key employees with necessary skills could have a materially adverse impact on our growth and profitability. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

ERRORS AND OMISSIONS CLAIMS

We have extensive operations and are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing insurance and handling claims. The placement of insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against us may allege our potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defence costs. Errors and omissions could include, for example, our employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to our customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions we take may not be effective in all cases.

Our business, financial condition and/or results may be negatively affected if in the future our errors and omissions insurance prove to be inadequate or unavailable. In addition, errors and omissions claims may harm our reputation or divert management resources away from operating our business.

UNPREDICTABLE CATASTROPHIC EVENTS

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines, including business interruption, business personal property and workers' compensation. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon contingent commissions which we would expect to receive from a P&C insurer who experienced significant losses, the result of which could have a material adverse effect on our net income and financial condition. Catastrophes could also cause loss of life where the actuarial liabilities calculated are not sufficient to meet the expenses from the loss. Catastrophes could also impact loan portfolio by way of our methodology for loan loss provisioning and specific write-downs.

CHANGES IN THE BUSINESS AND ECONOMIC ENVIRONMENT

Our business and results can be significantly affected by changes in the business and economic environment, including: changes in the level of demand for P&C insurance, life products and banking products. We operate primarily in Western Canada and changes in the business and economic environment in the four provinces could have an impact on our business along with the current economic down-turn and the prolonged economic uncertainty. This would include increases in the supply of P&C insurance as a result of new capital provided by recent or future market entrants or by existing P&C insurers; volatile and unpredictable developments (including catastrophes), fluctuations in short-term and long-term interest rates, price competition, credit quality and capital needs. The challenges with the economic down-turn and slow recovery from the recession, and the market uncertainty could have an impact on our core business. At this time we have not seen a significant negative impact other than in our investments in 2008.

FAILURE OF COMPUTER AND DATA PROCESSING SYSTEMS

Our business is dependent upon the successful and uninterrupted functioning of our computer and data processing systems. The failure of these systems and disaster recovery plans in place could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities. If sustained or repeated, system failures could result in the loss of existing or potential business relationships or could negatively affect our financial results.

DIVIDEND POLICY

The Corporation's common share dividend policy which, upon the satisfaction of certain conditions, provides for the payment of a quarterly dividend which began following the completion of the Corporation's 2006 fiscal year. The payment of dividends and the timing and amount of such dividends is subject to the discretion of the Board of Directors and depends on, among other things, our financial condition, general business conditions, restrictions regarding the payment of dividends by us or to us by our subsidiaries including regulatory restrictions and other factors that the Board of Directors may in the future consider to be relevant. It is expected that dividends will be paid to shareholders of record at March 31, June 30, September 30 and December 31 of each year.

COVENANTS OF THE COMPANY

In connection with our ongoing business activities, we have made and may make commitments to lenders, bondholders and regulatory authorities that may limit our flexibility to make, or influence, certain business decisions concerning the payment of dividends or the amount of dividends, raising capital, making acquisitions, and incurring additional debt. For our regulated subsidiaries there are restrictions on paying dividends which could limit our ability to distribute funds to Western to redistribute elsewhere or for general corporate purposes. We believe that these commitments are or would be comparable to those made by similar businesses to our own.

FINANCIAL INSTRUMENTS

We have entered into certain financial agreements that are considered to be financial instruments. Subordinated convertible debentures are considered to be compound financial instruments and accordingly, a portion of the debentures is recorded as equity in our audited financial statements and notes. We entered into these agreements to obtain the necessary capital to fund business acquisitions.

Financial instruments are subject to credit risk, liquidity risk and market risk as described in note 6 in our audited financial statements.

Additional information relating to our Company, including our current Annual Information Form, is available on SEDAR at www.sedar.com.

March 11, 2010

AUDITORS' REPORT

To the Shareholders of Western Financial Group Inc.

We have audited the consolidated balance sheets of Western Financial Group Inc. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of income and retained earnings, comprehensive income and accumulated other comprehensive loss and cash flow for each of the years in the two year period ended December 31, 2009. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flow for each of the years in the two year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

Management's Responsibility

Management is responsible for preparing the Company's financial statements and the other information that appears in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded. Management has a process in place to evaluate disclosure controls and procedures in accordance with Canadian securities regulations. PricewaterhouseCoopers LLP audits the Company's consolidated financial statements in accordance with generally accepted accounting standards in Canada which provides an independent view as to whether the statements present fairly, in all material respects, the financial position and results of the Company's operations.

Western Financial Group Inc. Board of Directors has an Audit Committee with non-management Directors. The Committee reviews the interim and annual consolidated financial statements and management's discussion and analysis, and recommends them for approval by the Board of Directors. The Committee also meets with financial management and the independent auditors to review accounting, auditing and financial reporting matters.

Scott Tannas
President and Chief Executive Officer

Catherine Rogers
Executive Vice President, Finance and Chief Financial Officer

March 11, 2010

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2009 AND 2008
(in thousands, except for per share amounts)

	2009	2008
ASSETS		
Cash and cash equivalents (Note 17)	$ 58,463	$ 28,563
Securities - held-for-trading (Note 4)	61,373	53,091
Securities - available-for-sale (Note 4)	30,901	103,808
Mortgages, loans and leases (Note 5)	355,621	272,135
Interest rate swap	90	-
Equity investments (Note 8)	11,591	36,000
Capital assets (Note 9)	21,630	15,325
Goodwill (Note 11)	148,205	105,285
Intangible assets (Note 12)	66,719	27,996
Accounts receivable (Note 13)	51,114	23,999
Prepaid expenses	7,231	8,039
Income taxes receivable	-	800
Future income taxes (Note 21)	1,102	539
Other assets	2,286	2,040
	$ 816,326	$ 677,620
LIABILITIES		
Customer deposits (Note 14)	$ 317,953	$ 333,130
Actuarial liabilities (Note 15)	40,032	38,256
Provision for unpaid and unreported claims (Note 15)	13,919	8,510
Debt (Note 16)	79,771	38,151
Due to policyholders (Note 17)	20,392	-
Accounts payable and accrued liabilities	82,700	50,378
Income taxes payable	1,809	-
Future income taxes (Note 21)	13,199	5,480
Total liabilities	569,775	473,905
SHAREHOLDERS' EQUITY		
Share capital (Note 18)	206,905	173,438
Other paid in capital	268	-
Contributed surplus	2,041	1,954
	209,214	175,392
Accumulated other comprehensive loss	(129)	(296)
Retained earnings	37,466	28,619
Total shareholders' equity	246,551	203,715
	$ 816,326	$ 677,620

Approved:

Scott Tannas, Director   Gregg Speirs, Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(in thousands, except for per share amounts)

	2009	2008
REVENUE		
Commission and other customer income	$ 91,540	$ 76,651
Premium income	45,904	31,240
Interest income on customer loans	24,556	18,596
Investment income		
Change in fair value of held-for-trading securities	1,929	(64)
Realized gain (loss) on sales of available-for-sale assets	392	(217)
Realized gain (loss) on sales of held-for-trading securities	37	(30)
Impairment of available-for-sale securities (Note 4)	-	(3,830)
Other net investment income	1,718	2,509
	166,076	124,855
EXPENSES		
Operating expenses	99,819	81,707
Policyholder benefits	24,074	14,789
Interest expense - customer deposits	15,165	12,555
Provision for credit losses (Note 5)	2,645	936
Income before the following:	24,373	14,868
Income from equity investments	2,859	2,172
Impairment on equity investments (Note 8)	-	(2,053)
Gain on sale of investments and capital assets	298	1,263
Interest and financing costs on debt	(4,308)	(2,137)
Amortization of capital assets (Note 9)	(3,163)	(2,661)
Amortization of intangible assets (Note 12)	(2,088)	(1,262)
Income before income taxes	17,971	10,190
Income taxes (Note 21)	(2,010)	(3,642)
NET INCOME FOR THE YEAR	$ 15,961	$ 6,548
Retained earnings, beginning of year	$ 28,619	$ 28,015
Preferred share dividends	(5,001)	(3,914)
Common share dividends	(2,113)	(2,030)
Retained earnings, end of year	$ 37,466	$ 28,619
Earnings per share (Note 22)		
Basic	$ 0.22	$ 0.05
Diluted	$ 0.22	$ 0.05

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(in thousands, except for per share amounts)

	2009	2008
COMPREHENSIVE INCOME		
Net income for the year	$ 15,961	$ 6,548
Other comprehensive loss from available-for-sale financial instruments, net of tax of $53 (2008 - $65)	99	(47)
Change in fair value of interest rate swap (net of tax of $22)	68	-
Comprehensive income	$ 16,128	$ 6,501

	2009	2008
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	$ (296)	$ (249)
Unrealized net loss on available-for-sale financial instruments arising during the year, net of tax of $33 (2008 - $571)	577	(845)
Reclassification to net income of net loss (gain) on sale of available-for-sale financial instruments during the year, net of tax of $86 (2008 - $506)	(478)	798
Change in fair value of interest rate swap (net of tax of $22)	68	-
Other comprehensive loss for the year, net of tax	167	(47)
Balance, end of year	$ (129)	$ (296)

CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(in thousands, except for per share amounts)

	2009	2008
CASH PROVIDED BY (USED IN) OPERATIONS, net of acquisitions		
Net income for the year	$ 15,961	$ 6,548
Items not involving cash (Note 27)	(941)	4,118
Impairment of available-for-sale securities (Note 4)	-	3,830
Realized net loss (gain) - held-for-trading and available-for-sale assets	(429)	247
Other net investment income	(1,718)	(2,509)
	12,873	12,234
Change in non-cash working capital (Note 27)	5,066	(3,395)
	17,939	8,839
CASH PROVIDED BY (USED IN) INVESTING, net of acquisitions		
Investment in securities	(91,061)	(369,967)
Proceeds on sale of securities	171,535	310,376
Net (decrease) increase in mortgages, loans and leases	(7,090)	15,030
Equity investments	-	(12,031)
Capital assets purchases	(4,035)	(5,723)
Net increase in goodwill	-	(27)
Other assets	56	1,489
Debt acquired from acquisitions (Note 10)	(70,946)	-
Cash used in business acquisitions (Note 10)	(63,624)	(8,691)
Other non-cash items	27,268	-
	(37,897)	(69,544)
CASH PROVIDED BY (USED IN) FINANCING, net of acquisitions		
Net (decrease) increase in customer deposits	(15,177)	49,831
Advances of debt	70,399	14,883
Repayments of debt	(43,922)	(5,254)
Issuance of convertible debentures	16,710	-
Proceeds from issuance of common shares	-	(327)
Proceeds from issuance of preferred shares	27,967	-
Dividends paid - common shares	(2,113)	(1,980)
Dividends paid - preferred shares	(4,006)	(3,918)
	49,858	53,235
Increase (decrease) in cash for the year (Note 27)	29,900	(7,470)
Cash and cash equivalents, beginning of year	28,563	36,033
Cash and cash equivalents, end of year	$ 58,463	$ 28,563

NOTE 1 OPERATIONS

Western Financial Group Inc. ("the Company") was incorporated in the province of Alberta as 674658 Alberta Inc. on November 15, 1995 and is engaged in the acquisition and operation of insurance and financial service brokerage businesses, banking activities, life and health insurance underwriting, provision of dog and cat insurance products, commercial property and casualty underwriting, and travel agency operations in Western Canada.

The Company's primary business is the ownership and operation of Western Financial Group (Network) Inc. ("the Network"), which serves 100 communities with offices in British Columbia ("BC"), Alberta ("AB"), Saskatchewan ("SK") and Manitoba ("MB"). In addition, the Company has affiliated offices in 12 communities with 15 offices in BC and SK. These locations offer a broad variety of property and casualty insurance services including private auto insurance and government auto insurance in BC, SK and MB, home and farm insurance, business and specialty insurance, life products and in many locations, investment and financial services.

The banking activities are carried out through a federally incorporated, wholly owned subsidiary, Bank West ("the Bank"), which received its bank charter on November 27, 2002 and commenced operations on January 30, 2003. The Bank is subject to the Bank Act (Canada).

The life and health insurance underwriting activities are carried out through Western Life Assurance Company ("Western Life"). Western Life is a wholly owned subsidiary company licensed to write all classes of life, health, and loss of employment insurance, in all provinces in Canada and is subject to the Insurance Companies Act (Canada). Western Life's products are marketed through agents and independent brokers and the majority of the writings are in the provinces of Ontario and AB.

The provision of dog and cat insurance products and the commercial property and casualty underwriting activities are carried out through SecuriCan General Insurance Company ("SecuriCan"). SecuriCan is a wholly owned subsidiary company licensed to write property and liability insurance in all provinces and territories in Canada and is subject to the Insurance Companies Act (Canada).

NOTE 2 ACCOUNTING POLICIES

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary companies, after the elimination of intercompany transactions and balances. Subsidiaries are companies in which the Company directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities.

Use of Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure or contingent assets or liabilities at the date of the financial statements as well as the reported amount of income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to valuation and impairment of securities, the valuation of equity investments, the allowance for credit losses on mortgages, loans and leases, the allowance for policy cancellations, the valuation of actuarial liabilities, the valuation of goodwill and intangibles, the useful life of intangible assets, the allocation of purchase price to goodwill and intangible assets, future income taxes and the determination of contingencies. Therefore, actual results could differ from these and other estimates.

Cash and Cash Equivalents

Cash and cash equivalents are classified as held-for-trading and include cash, short term investments with maturity of up to 90 days at the time of purchase and the outstanding amount under the Company's operating lending facility. The carrying amount of cash and cash equivalents is equal to their fair value due to their short term nature.

Deferred Charges

Deferred charges are included in Other assets on the Consolidated Balance Sheet. Amounts are being amortized on a straight-line basis commencing in the year of operations over periods of two to five years. Deferred charges relating to debt financing reduce the related debt obligation and are amortized over the debt term using the effective interest method.

Other Liabilities

The Company has designated accounts payable, customer deposits and debt as financial liabilities measured at cost or amortized cost.

Revenue Recognition

THE NETWORK

Contingent profit commissions represent amounts received from insurance companies based on volumes and loss ratios of customer insurance policies written with the respective company and are estimated and recognized in the year earned.

Insurance commission revenue is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinable. The Company maintains an allowance for estimated policy cancellations and commission returns by applying historical policy cancellations and endorsements to the current year revenue adjusted for acquisitions and dispositions.

BANK WEST

The Company records interest income earned on performing loans as interest income in the financial statements and is recorded under the effective yield method. Recognition of interest income ceases when a loan is classified as impaired.

WESTERN LIFE

Premiums for individual and group of insurance contracts, and contracts with limited mortality or morbidity risk, are recognized as revenue when due. Premiums relating to specific program contracts (Whole Life, Group Critical Illness, Group Accidental Death & Dismemberment and Creditor) are recognized as revenue when earned. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

SECURICAN

Premiums are taken into income on a monthly pro-rata basis over the policy life. Unearned premiums represent the portion of premiums written that relates to the unexpired term of the policies in force.

Comparative Figures

Certain of the comparative figures presented have been reclassified to conform with the current year's presentation.

Specific Accounting Policies

To facilitate a better understanding of the Company's consolidated financial statements, the significant accounting policies are disclosed throughout the following notes with the related financial disclosures by major caption:

Note	Topic	Note	Topic
4	Securities	17	Due to Policyholders
5	Mortgages, Loans and Leases	18	Share Capital
6	Risk Management	19	Capital Management
7	Commitments	20	Compensation
8	Equity Investments	21	Income Taxes
9	Capital Assets	22	Earnings Per Share
10	Business Acquisitions	23	Segmented Information
11	Goodwill	24	Related Party Transactions
12	Intangible Assets	25	Fair Value of Financial Instruments
13	Accounts Receivable	26	Contingencies
14	Customer Deposits	27	Supplemental Disclosure of Cash Flow Information
15	Policy Liabilities	28	Subsequent Event
16	Debt		

NOTE 3 CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangibles

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standard, Section 3064 – Goodwill and Intangibles, replacing section 3062 – Goodwill and Other Intangible Assets. The new standard establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. The adoption of the guidance did not result in a change in the treatment of the Company's intangible assets. This standard has been adopted retrospectively.

Credit Risk and Fair Value

Effective January 1, 2009, the Company adopted the CICA's Emerging Issues Committee ("EIC") Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Company's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Company.

Financial Instruments – Disclosures

Effective January 1, 2009, the Company adopted CICA amendments to Section 3862, Financial Instruments – Disclosures. These amendments require enhanced disclosures over fair value measurements of financial instruments and liquidity risks. The additional disclosures over fair value measurements include categorization of fair value measurements into one of three levels, ranging from those fair value measurements that are determined through quoted market prices in an active market to those fair value measurements that are based on inputs that are not based on observable market data (Note 25). The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as maturity analysis for derivative financial liabilities.

NOTE 4 SECURITIES

Securities designated as held-for-trading ("HFT"), which are purchased for resale within a short period of time, are carried at fair value. Gains and losses realized on disposal and adjustments to fair value are reported in investment income in the consolidated statements of income and retained earnings in the period in which they occur.

Securities designated as available-for sale ("AFS"), which are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive, are carried at fair value. Changes in fair value are reported in other comprehensive income ("OCI"), net of income taxes, as unrealized net gain or loss. As unrealized gains or losses become realized through investment sale or impairment, they are reclassified from accumulated OCI to investment income. At each reporting date, and more frequently when conditions warrant, the Company evaluates its AFS securities with unrealized losses to determine whether those unrealized losses are other-than-temporary. This determination is based on consideration of several factors including:

i. the length of time or extent to which the fair value has been less than its amortized cost;
ii. the severity of the impairment;
iii. the cause of the impairment and the financial condition and the near-term prospects of the issuer;
iv. default or delinquency in interest or principal payments; and
v. access to active markets.

If the Company's assessment indicates that the impairment in value is other-than-temporary, or the Company does not have the intent or ability to hold the security until its fair value recovers, impairment charges are recorded in net income.

2009	Held For Trading Securities			Available For Sale Securities		
	Within 1 year	Over 1 year	Total	Within 1 year	Over 1 year	Total
Fixed income securities						
Canadian government	$ 5,368	$ 45,523	$ 50,891	$ 7,858	$ 10,474	$ 18,332
Corporate notes	-	10,482	10,482	1,568	4,377	5,945
Fixed income exchange funds	-	-	-	-	2,994	2,994
Income Pooled Funds	-	-	-	3,630	-	3,630
Equity Pooled Funds	-	-	-	-	-	-
Preferred shares	-	-	-	-	-	-
	$ 5,368	$ 56,005	$ 61,373	$ 13,056	$ 17,845	$ 30,901

2008	Held For Trading Securities			Available For Sale Securities		
	Within 1 year	Over 1 year	Total	Within 1 year	Over 1 year	Total
Fixed income securities						
Canadian government	$ 3,139	$ 41,787	$ 44,926	$ 84,655	$ 3,136	$ 87,791
Corporate notes	90	8,075	8,165	2,065	1,234	3,299
Fixed income exchange funds	-	-	-	-	-	-
Income Pooled Funds	-	-	-	-	-	-
Equity Pooled Funds	-	-	-	-	9,882	9,882
Preferred shares	-	-	-	-	2,836	2,836
	$ 3,229	$ 49,862	$ 53,091	$ 86,720	$ 17,088	$ 103,808

Fixed income exchange funds have no fixed maturity date and are considered to have a contractual maturity of Over 1 year.

At December 31, the Bank had pledged Government of Canada Treasury Bills in the amount of $2,000 (2008 - $2,583) in support of a Clearing Settlement line of credit of $2,000 (2008 - $2,500). The restricted Treasury Bills are included in total securities and are held in safekeeping by a major Canadian investment dealer.

During 2008, the Company recognized an other than temporary impairment of $3,830 on its holdings of certain preferred shares and its equity pooled funds based on the decline below book value and current and prospective market conditions. As a result the cumulative loss previously recognized in OCI was recorded in investment income.

Unrealized Gains and Losses

	2009				2008			
	Available For Sale Securities				Available For Sale Securities			
	Amortized Cost	Unrealized Gains	Unrealized Losses	**Fair Value**	Amortized Cost	Unrealized Gains	Unrealized Losses	**Fair Value**
Fixed income securities								
Canadian government	$ 18,160	$ 209	$ (37)	$ 18,332	$ 87,584	$ 214	$ (8)	$ 87,791
Corporate notes	5,724	223	(2)	5,945	3,346	2	(49)	3,299
Fixed income exchange funds	3,008	-	(14)	2,994	-	-	-	-
Income Pooled Funds	3,668	-	(38)	3,630	9,882	-	-	9,882
Preferred shares	-	-	-	-	2,836	-	-	2,836
	$ 30,560	$ 432	$ (91)	$ 30,901	$ 103,648	$ 216	$ (57)	$ 103,808

Unrealized losses at year-end are considered to be temporary in nature.

NOTE 5 MORTGAGES, LOANS AND LEASES

The Company has classified its mortgages, loans and leases as loans and receivables and records them initially at fair value and after initial recognition at amortized cost using the effective interest rate method.

Policy loans are classified as loans and receivables and are carried at amortized cost. They are fully secured by the cash surrender values of the policies on which the respective loans are made.

Current performing mortgages, loans and leases are stated at cost net of any unearned income and an allowance for credit losses. Loans that are considered impaired are recorded at the carrying value less collateral.

Mortgages, loans and leases, excluding credit card loans, are considered impaired when either they are more than 90 days in arrears (180 days in the case of premium financing loans), or when in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collections of both principal and interest. Mortgages, loans and leases will be returned to performing status when there is reasonable assurance of collection and all delinquent principal and interest payments are brought current.

Credit card loans are considered impaired and 30% is immediately written off when the principal or interest payments are 120 days past due. Another 50% is written off when the principal or interest payments are 150 days past due and the remaining balance is written off when the principal or interest payments are 180 days past due.

Specific Allowance
If the net present value of the anticipated cash flows arising from the disposal of the underlying assets supporting an impaired mortgage, loan or lease is thought to be insufficient to recover the carrying value of the mortgage, loan or lease, the shortfall is set up as a specific allowance and an immediate charge to income occurs.

General Allowance

The Company has provided a general allowance for losses, which management estimates are contained within the portfolio on the balance sheet date. The general allowance is established against the loan portfolio in respect of the Company's core business lines where prudent assessment of existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis. This allowance is re-assessed monthly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile, economic and market conditions, analysis of evolving trends and management's current assessment of factors that may have affected the condition of the portfolio.

Outstanding mortgages, loans and leases, net of allowances for credit losses, are as follows:

	2009					2008				
	Gross amount	Specific allowance	General allowance (see Note)	Total allowance	Net total	Gross amount	Specific allowance	General allowance (see Note)	Total allowance	Net total
Residential and commercial mortgages	$ 59,983	$ 225	$ 315	$ 540	$ 59,443	$ 88,671	$ -	$ 75	$ 75	$ 88,596
Consumer loans	188,034	850	1,108	1,958	186,076	138,027	249	1,064	1,313	136,714
Commercial loans	25,193	263	227	490	24,703	24,687	17	119	136	24,551
Credit cards	34,862	96	850	946	33,916	-	-	-	-	-
Leases	52,924	920	521	1,441	51,483	22,805	327	204	531	22,274
	$ 360,996	$ 2,354	$ 3,021	$ 5,375	$ 355,621	$ 274,190	$ 593	$ 1,462	$ 2,055	$ 272,135

Note: *Although the general allowance has been allocated in the tables above by type of loan, it is available to cover all mortgages, loans and leases in the portfolio.*

Outstanding mortgages, loans and leases, net of allowances for credit losses, by region, are as follows:

	2009							2008	
	Residential and commercial mortgages	Consumer loans	Commercial loans	Credit cards	Leases	Total	Composition Percentage	Total	Composition Percentage
Alberta	$ 37,963	$ 140,843	$ 7,234	$ 4,846	$ 23,997	$ 214,883	60.4%	$ 189,492	69.6%
British Columbia	19,342	44,065	1,863	433	1,204	66,907	18.8%	58,451	21.5%
Saskatchewan	1,748	1,768	9,917	21,953	22,653	58,039	16.3%	6,332	2.3%
Manitoba	670	588	2,608	6,260	2,847	12,973	3.6%	2,801	1.0%
Eastern Canada	260	604	3,571	1,366	2,223	8,024	2.3%	16,501	6.1%
International	-	166	-	-	-	166	0.0%	175	0.1%
Territories	-	-	-	4	-	4	0.0%	438	0.2%
	59,983	188,034	25,193	34,862	52,924	360,996	101.5%	274,190	100.8%
Allowance for credit losses	(540)	(1,958)	(490)	(946)	(1,441)	(5,375)	-1.5%	(2,055)	-0.8%
	$ 59,443	$ 186,076	$ 24,703	$ 33,916	$ 51,483	$ 355,621	100.0%	$ 272,135	100.0%
Composition percentage									
December 31, 2009	16.7%	52.3%	6.9%	9.5%	14.5%	100.0%			
December 31, 2008	32.6%	50.2%	9.0%	0.0%	8.2%	100.0%			

The following table shows the changes in the allowances for credit losses during the year:

	2009			2008		
	Specific Allowance	General Allowance for Credit Losses	Total	Specific Allowance	General Allowance for Credit Losses	Total
Balance at beginning of year	$ 593	$ 1,462	$ 2,055	$ 419	$ 1,534	$1,953
Provision for credit losses	2,820	(175)	2,645	1,008	(72)	936
Write-offs and adjustments, net of recoveries	(1,059)	-	(1,059)	(834)	-	(834)
Adjustments, due to acquisitions	-	1,734	1,734	-	-	-
Balance at end of year	$ 2,354	$ 3,021	$ 5,375	$ 593	$ 1,462	$2,055

For assets acquired through foreclosure, fair value is determined through market research.

NOTE 6 RISK MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risks which include credit risk, liquidity risk, and market risk and mitigates the risks accordingly.

a) Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss. The most significant assets giving rise to credit risk is the mortgage, loan and lease portfolio. The Company's maximum exposure to credit risk at December 31 is summarized in the following table.

		2009		2008
Cash and cash equivalents	$	58,463	$	28,563
Securities - held-for-trading		61,373		53,091
Securities - available-for-sale		30,901		103,808
Mortgages, loans and leases		355,621		272,135
Interest rate swaps		90		-
Accounts receivable		51,114		23,999
Total balance sheet maximum credit exposure		557,562		481,596
Bank West credit commitments (Note 7)		10,155		3,235
Maximum credit exposure	$	567,717	$	484,831

Restricting both the type and the term of investments mitigates securities risk. To reduce credit risk, the Company only invests in Canadian corporations and institutions with large capitalization and acceptable liquidity. Investments are reviewed monthly by management and reviewed quarterly by the Investment Committee and management. The credit quality of the Company's securities at December 31 is described in the following table.

	2009		2008	
	Held For Trading	Available For Sale	Held For Trading	Available For Sale
Securities:				
Bonds - AAA rating	$ 15,432	$ 6,230	$ 12,552	$ 2,513
Bonds - AA rating	26,526	2,506	23,682	3,416
Bonds - A rating	16,906	4,081	13,718	513
Bonds - below A rating	-	209	-	-
Bonds - BBB rating	204	-	-	-
Income Pooled funds	-	3,630	-	-
Fixed income exchange funds	-	2,994	-	-
Equity Pooled funds	-	-	-	9,882
Preferred shares - P-1 rating	-	-	-	2,836
Term deposits	-	7,574	-	-
Subordinated debentures	-	500	-	-
Treasury bills	2,305	3,177	3,139	84,648
	$ 61,373	$ 30,901	$ 53,091	$ 103,808

Income pooled funds are funds that invest in Canadian bonds, preferred shares, trusts and common stock. Fixed income exchange funds are funds that invest in Canadian government and high grade bonds. Equity pooled funds are funds for long-term capital gain and dividend income from larger Canadian companies. The term deposits are held at major Canadian financial institutions.

The credit quality of the Company's mortgage, loan and lease portfolio at December 31 is described in the following table.

	Residential and commercial mortgages	Consumer loans	Commercial loans	Credit cards	Leases	Total
Mortgages and loans						
Neither past due nor impaired	$ 55,685	$ 184,807	$ 23,944	$ 30,395	$ 48,169	$ 342,999
Past due but not impaired						
Past due less than 90 days	1,530	1,330	981	4,204	2,422	10,467
Past due 90 to 179 days	-	196	-	-	58	254
Non-performing loans (past due greater than 90 days and other identified impaired loans)	2,768	1,701	268	263	2,275	7,275
Gross carrying value	59,983	188,034	25,193	34,862	52,924	360,996
Specific provision	225	850	263	96	920	2,354
General provision						3,021
Net carrying value at December 31, 2009						**$ 355,621**
Net carrying value at December 31, 2008						**$ 272,135**

$283 of the past due mortgages, loans and leases were renegotiated during 2009.

During 2009, loans with a carrying value of $7,275 were determined to be impaired based on uncertainty as to the full repayment of the outstanding principal balance.

Credit risk with respect to mortgages, loans and leases is mitigated through conservative underwriting policies and charges against real property that reduce the Company's risk exposure on these loans. To diversify this risk, the Company limits exposure to a single borrower or associated borrowers, unless approved by the Board, to a specified maximum. The Company employs and is committed to a number of important principles to manage credit exposures, which include:

a. a Credit & Risk Subcommittee whose duties include the approval of lending policies, establishment and delegation of lending limits;
b. delegated lending authorities, clearly communicated to all personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by a senior management group prior to recommendation to the Credit & Risk Subcommittee;
c. credit policies, guidelines and directives, which are communicated to all branches and officers whose activities and responsibilities include credit granting and risk assessment;

d. a standardized credit risk rating classification established for all credits and reviewed not less than annually;
e. annual reviews of individual credit facilities (except consumer loans and single-unit residential mortgages);
f. quarterly review of risk diversification by geographic area, industry sector and product measured against assigned portfolio limits;
g. early recognition of problem accounts and immediate implementation of steps to protect safety of Bank funds; and
h. completion of a watch list report recording accounts with evidence of weakness and an impaired loan report covering loans that show impairment to the point where a loss is possible.

The Company holds security related to mortgages, loans and leases in the form of real property, mortgage insurance, and liens on equipment and vehicles. Mortgages are fully collateralized by real property. Certain of the residential mortgages are insured through Canada Mortgage and Housing Corporation amounting to $9,940 (2008 - $18,814).

Credit risk with respect to accounts receivable is minimized by the Company's large customer base, which covers all consumer and business sectors in BC, AB, MB and SK. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics arising from factors such as economic or geographic regions (Note 5) or similar industries. The Company mitigates this risk through diversification requirements.

Western Life

Reinsurance risk is defined as the failure of reinsurers to honour their obligations resulting in losses to the Company. Maximum benefit amount limits per insured (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits. Reinsure contracts do not relieve the Western Life from its obligations to policyholders. Western Life has agreements with a number of reinsurers and evaluates the ratings of reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. As a result of reinsurance, actuarial liabilities have been reduced by $19,646 (2008 - $16,687). At December 31, reinsurance companies assuming more than 10% of ceded liabilities were:

	2009	2008
Optimum Reassurance Inc.	$ 11,373	$ 11,014
RGA Life Reinsurance Company of Canada	$ 7,640	$ 4,629

The following table summarizes the balances outstanding from Canadian reinsurers as at December 31 by risk rating.

Credit Rating	Reinsurance Receivable	
	2009	2008
A- (Excellent)	$ 1,318	409
A+ (Superior)	725	209
A++ (Superior)	50	-
	$ 2,093	**$ 618**

Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. Western Life places its current new business with registered reinsurers. The group of reinsurers that Western Life cedes to has an A.M. Best rating from A- (Excellent) to A++ (Superior). No information has come to management's attention indicating weakness or failure of any of its current reinsurers therefore no provision has been made in the accounts for doubtful collection.

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fund all cash outflow requirements as they fall due.

The Company manages this risk through management of cash flows as well as its concentration and maturities of assets and liabilities. Operating liquidity needs of the Company are evaluated daily and projected forward 30 day. Long term liquidity needs are managed through cash flow analysis of assets and liabilities – forecasting earned and required yields, to ensure future cash flows to support obligations.

Based on the Company's historical cash flows and financial performance, management believes that the Company's cash flows from operations will continue to provide sufficient liquidity to satisfy its obligations.

The mandate of the Bank's Asset and Liability Committee ("ALCO") is to ensure proper and prudent liquidity management in accordance with industry and regulatory guidelines and Board policy. In order to actively manage liquidity risk, ALCO meets on a weekly basis to:

a. construct and assess the probability of various scenarios involving shocks to liquidity and interest rates, and position the Bank to handle such scenarios and contingencies at minimum cost, while maintaining profitability;
b. set lending and deposit rates from time to time;
c. monitor current and projected Treasury cash flows and modify deposit/loan flows as appropriate to maintain liquidity;

d. on an ongoing basis review policies established for investment and securities portfolio management; evaluate investment holdings performance for their support of investment strategy, and recommend revisions, where appropriate, to the Board through the Audit and Risk Management Committee;
e. evaluate, on an ongoing basis, the mix and balance of the Bank's assets and liabilities, including capital, and adjust as appropriate to Board policy;
f. report at each meeting of the Audit and Risk Management Committee (and through it to the Board) on the status of risk and liability management matters.
g. approve terms, amortization, interest rates, commitment periods, early repayment privileges and other options for new asset and liability products which may impact liquidity or interest rate risks of the Bank.

Western Life's and SecuriCan's Investment Committees along with senior management ensures that prudent cash management and investment practices are followed in accordance with Board policy and statutory requirements.

The following table presents the contractual maturities of the Company's financial assets and liabilities, at December 31.

	Within 1 year	Over 1 to 2 years	Over 2 to 4 years	Over 4 to 10 years	Over 10 years	Total
Cash and cash equivalents	$ 58,463	$ -	$ -	$ -	$ -	$ 58,463
Securities	21,420	12,196	13,362	16,130	29,166	92,274
Mortgages, loans and leases	118,292	40,022	107,224	93,693	-	359,231
Interest rate swap	-	-	-	90	-	90
Accounts receivable	51,114	-	-	-	-	51,114
	249,289	52,218	120,586	109,913	29,166	561,172
Customer deposits	136,536	95,424	85,796	197	-	317,953
Actuarial liabilities	221	723	1,954	5,430	31,704	40,032
Provision for unpaid and unreported claims	10,813	1,555	1,034	517	-	13,919
Accounts payable and accrued liabilities	82,700	-	-	-	-	82,700
Debt	10,417	9,406	18,821	41,127	-	79,771
Due to policyholders	-	-	-	-	20,392	20,392
	240,687	107,108	107,605	47,271	52,096	554,767
At December 31, 2009	**$ 8,602**	**$ (54,890)**	**$ 12,981**	**$ 62,642**	**$ (22,930)**	**$ 6,404**
At December 31, 2008	**$ 22,514**	**$ (21,853)**	**$ (32,120)**	**$ 10,177**	**$ 81,003**	**$ 59,721**

See Note 7 for cash flow commitments related to property leases.

c) *Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk, and other price risk.

The Company has no material exposure to foreign ***currency risk***.

Interest rate risk, or sensitivity, is defined as the impact on net income, both current and future, resulting from a change in market interest rates. This risk and potential variability in earnings arises primarily when cash flows associated with interest sensitive assets and liabilities have different repricing dates and due to mismatch between amounts of fixed and floating rate assets and liabilities.

The Company enters into interest rate swaps from time to time in order to reduce the impact of fluctuating interest rates on its debt (Note 16). These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company accounts for swaps as a cash flow hedge for accounting purposes. The effective portion of the change in value of the hedging derivative is recognized in OCI, net of tax, and any ineffective portion is recognized in net income. The amounts accumulated in OCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

During 2009, the Company entered into two interest rate swap agreements to manage interest rate risk on $40,000 of its bank debt. The actual amount of gain or loss on these hedges will fluctuate with current interest rates.

The first agreement has a notional amount of $30,000 and expires March 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.12% per annum. The second agreement has a notional amount of $10,000 and expires November 2014. Under the terms of this agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.78% per annum. At December 31, the actual interest rate on the underlying debt instrument for both was 5.0% per annum. As a result, the Company has recorded $1,067 as interest expense for the year, related to these agreements. During 2009, the average interest rate paid (fixed rate) was 5.01% and the average interest rate received (floating rate) was .41%

Bank West

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its bank term loans payable. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of the Bank that are scheduled to mature or re-price on particular dates. The Bank uses gap analysis to measure this risk. To manage interest risk, the ALCO establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's position and to decide future strategy. The goal is to manage the interest rate risk within prudent guidelines. Interest rate risk policies are reviewed at least annually by the Board, with quarterly reporting to the Board as to the gap position.

The gaps which existed, for the Bank, at December 31 based on the maturity date of interest rate sensitive instruments are detailed as follows:

As at December 31, 2009

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets									
Cash and securities	$ 14,815	$ 5,004	$ -	$ 500	$ -	$ -	$ -	$ -	$ 20,319
Mortgages, loans and leases	21,718	96,034	40,022	59,213	48,011	44,479	39,540	6,064	355,081
Other assets	-	-	-	-	-	-	-	22,345	22,345
Total assets	$ 36,533	$ 101,038	$ 40,022	$ 59,713	$ 48,011	$ 44,479	$ 39,540	$ 28,409	$ 397,745
Liabilities and Equity									
Current liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,077	$ 16,077
Deposits	351	132,730	95,424	77,460	8,336	197	-	-	314,498
Shareholder's equity	-	-	-	-	-	-	-	67,170	67,170
Total liabilities and equity	$ 351	$ 132,730	$ 95,424	$ 77,460	$ 8,336	$ 197	$ -	$ 83,247	$ 397,745
Interest rate sensitive gap	$ 36,182	$ (31,692)	$ (55,402)	$ (17,747)	$ 39,675	$ 44,282	$ 39,540	$ (54,838)	$ -
Cumulative gap	$ 36,182	$ 4,489	$ (50,912)	$ (68,659)	$ (28,984)	$ 15,298	$ 54,838	$ -	
Cumulative gap as a percentage of total assets	9.10%	1.13%	-12.80%	-17.26%	-7.29%	3.85%	13.79%	0.00%	

As at December 31, 2008

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Cumulative gap	$ 123,150	$ 24,704	$ 1,396	$ (30,078)	$ (8,100)	$ 19,652	$ 964	$ -	-
Cumulative gap as a percentage of total assets	32.65%	6.55%	0.37%	-7.97%	-2.15%	5.47%	5.47%	0.00%	

Mortgage, loan and lease prepayments are assumed to be nil and the gap is sensitive to this assumption.

The effective, weighted average interest rates for each class of financial asset and liability are shown in the following table.

As at December 31, 2009

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets									
Cash and securities	0.0%	0.1%	0.0%	11.9%	0.0%	0.0%	0.0%	0.0%	1.8%
Mortgages, loans and leases	2.8%	8.6%	7.3%	7.6%	7.5%	7.3%	5.6%	0.0%	6.6%
Other assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total assets	2.8%	8.2%	7.3%	7.7%	7.5%	7.3%	5.6%	0.0%	6.6%
Liabilities									
Current liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits	0.8%	3.1%	4.3%	4.0%	4.6%	3.8%	0.0%	0.0%	2.9%
Total liabilities	0.8%	3.1%	4.3%	4.0%	4.6%	3.8%	0.0%	0.0%	2.9%
Interest rate sensitive gap	2.1%	5.1%	3.0%	3.6%	2.9%	3.4%	5.6%	0.0%	3.7%

As at December 31, 2008

	Floating Rate	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Total assets	3.1%	3.4%	6.3%	6.9%	7.6%	7.3%	6.3%	0.0%	5.0%
Total liabilities	0.8%	4.1%	4.5%	4.7%	4.8%	2.0%	0.0%	0.0%	3.3%
Interest rate sensitive gap	2.4%	-0.8%	1.9%	2.2%	2.7%	5.3%	6.3%	0.0%	1.7%

Based on the current interest rate gap position, it is estimated that a 100 basis point increase in all interest rates would increase net interest income by approximately 5.5% or $485 (2008 – 14.4% or $868 increase to net interest income) and decrease other comprehensive income $36 (2008 - $8) net of tax, respectively over the following twelve months. A 100 basis point decrease in all interest rates would increase net interest income by approximately 80% or $7,157 (2008 – 48% or $2,875 decrease to net interest income) and decrease other comprehensive income $33 (2008 - $180) net of tax.

Western Life

The actuarial assumption most susceptible to change in the short run is future investment returns. Under the prescribed valuation method, CALM, alternate interest rate scenarios are tested producing alternate policy liabilities for Individual Life insurance. The liability that is held is based on the interest rate scenario that produces the highest liability. The sensitivity to interest rate changes is, therefore, reflected in the development of the policy liabilities.

The liability produced for the base scenario is $31,000 (2008 - $30,000) compared to the highest liability produced of $34,000 (2008 - $32,200) – an increase of $2,700 (2008 - $1,800). The highest liability results from a temporary 2.0% reduction from current rate.

Based on the current interest rate gap position, it is estimated that a 100 basis point increase in all interest rates would decrease net income by ($816) and decrease other comprehensive income by ($333), net of tax. A 100 basis point decrease in all interest rates would increase net income by $940 and increase other comprehensive income by $375, net of tax.

SecuriCan

Because most of SecuriCan's securities portfolio is comprised of fixed income securities, changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. In addition, changes in interest rates will affect the market value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Because investments are classified as available-for-sale, these increases and decreases in fixed income securities will result in corresponding increases and decreases in other comprehensive income until the securities are sold and any gain or loss is realized. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount unpaid claims and adjustment expenses. Consequently, changes in interest rates will affect the carrying value of the unpaid claims and adjustment expenses. During periods of rising interest rates, the carrying value of unpaid claims and adjustment expenses will generally decrease and net income will increase. During periods of declining interest rates the opposite is true.

The approximate impact of an increase of 100 basis points in the interest yields would decrease the unpaid claims and adjustment expenses provision and increase the income (pre-tax) of the Company by $3 (2008 - $3) and decrease investments and other comprehensive income before income taxes of the Company by $198 (2008 - $80). The approximate impact of a decrease of 100 basis points in the interest yields would increase the unpaid claims and adjustment expenses provision and decrease the income before income taxes of the Company by $3 (2008 - $3) and increase investments and other comprehensive income before taxes of the Company by $180 (2008 - $80).

Other price risk is the risk that the fair value and/or future cash flows of the Company's pooled fund holdings fluctuate because of changes in market prices. Investments are reviewed monthly by management and reviewed quarterly by the Investment Committee and management. The Company monitors its pooled fund holdings relative to equity market conditions and reviews the performance of pooled fund investments against relative benchmarks. A 5% change in price equates to an impact of $182 on the fair value, with an offsetting amount recorded in OCI (pre-tax).

In addition to credit risk, liquidity risk and market risk, the Company is also exposed to product and pricing risk and underwriting and liability risk through its subsidiary, SecuriCan.

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. SecuriCan prices its products by taking into account several factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

SecuriCan may choose to adjust pricing below what it feels is acceptable to maintain a competitive position. However, SecuriCan strives to maintain a pricing level that ensures it is able to produce an acceptable return.

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the adjudication of claims, and the management of contractual and non-contractual product options.

SecuriCan has specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract in all jurisdictions. These guidelines are developed in consideration of provincial underwriting rules. SecuriCan continually reviews its underwriting rules and compliance with evolving provincial regulation on restricted criteria. SecuriCan considers stability, fairness and the expectations of its existing and potential policyholders when making deliberate changes to its underwriting rules.

NOTE 7 COMMITMENTS

In the normal course of business the Bank issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $10,155 (2008 - $3,235). It is not expected that customers will draw on the maximum of these commitments.

Under the terms of the purchase agreement related to Hayhurst Elias Dudek Inc. (Note 10), additional cash consideration may be granted in June 2010 and is based on certain financial results, operational success, and management decisions. The amount and outcome of contingent consideration related to Hayhurst Elias Dudek Inc. cannot be reasonably estimated and has not been recognized in the financial statements at this time as they are based on certain financial results, operational success, and management decisions.

Under the terms of the investment agreement with Jennings Capital Inc. additional voting shares can be sold to the Company contingent on certain financial covenants being met by Jennings Capital with certain restrictions on the number of shares to be sold to the Company in any given year. The amount and outcome of contingent consideration related to Jennings Capital Inc. for 2010 and subsequent years cannot therefore be reasonably estimated and has not been recognized in the financial statements.

Under the terms of property leases expiring between 2010 and 2014, the Company is committed to the following annual lease payments:

2010	$	4,373
2011	$	3,900
2012	$	3,436
2013	$	3,031
2014	$	2,709
2015 and thereafter	$	6,565

NOTE 8 EQUITY INVESTMENTS

Entities which are not controlled and over which the Company has the ability to exercise significant influence, referred to as affiliated companies, are accounted for using the equity method and include recognition of the Company's proportionate share of changes in the investee's OCI. The excess of purchase price over underlying fair value of assets, and liabilities of equity accounted for investments, is allocated to goodwill. Goodwill is not amortized, but is tested for impairment annually. The Company's share of earnings of affiliated companies is included in income from equity investments.

	2009	2008
Investment in Jennings Capital Inc., a corporation in which a director holds an interest:		
2,086 (2008 - 1,896) common shares representing 35% (2008 - 31%) of the outstanding common shares.	5,389	4,419
5 preferred shares, cumulative dividends at 4% per annum.	500	500
Investment in Falkins Insurance Agencies Ltd.		
.758 common voting, .758 common non-voting and .758 preferred non-voting shares representing 20% of the outstanding shares of the corporation. The excess of $1,996 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.	2,665	2,779
Investment in Harvard Ventures Ltd.		
1,575 common shares representing 50% of the outstanding common shares of the corporation. The excess of $130 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.	2,623	2,424
Investment in Hayhurst Elias Dudek Inc.		
At December 31, 2009, the Company owns 100% of HED and its results are consolidated. In 2008, the Company owned 5,557 common shares representing 49% of the outstanding common shares of the corporation.	-	25,501
Investment in Archibald Clarke & Defieux (Prince Rupert) Insurance Services Ltd.		
30 common shares and 30,937.50 preferred shares representing 30% of the outstanding shares of the corporation. The excess of $337 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.	414	377
	$ 11,591	$ 36,000

During 2008, the Company recognized an other than temporary impairment of $2,053 on its holdings of Jennings Capital Inc. common shares based on the decline below book value and current and prospective market conditions.

NOTE 9 CAPITAL ASSETS

Capital assets are recorded at cost less accumulated amortization except land, which is recorded at cost. Buildings, furniture and equipment, computer hardware and software, leased assets and automotive assets are being amortized over their estimated useful lives on a declining balance basis. Leasehold improvements are amortized on a straight line basis over the related lease term. Amortization calculations commence in the month of acquisition at the following annual rates:

Buildings	5%
Furniture and equipment	20%
Computer hardware	20%
Leased assets	30%
Automotive assets	30%
Leasehold improvements	over the term of the lease

	Land	Buildings	Leasehold Improvements	Furniture & Equipment	Computer Hardware & Software	Leased Assets	Automotive	Total
Cost								
Balance at January 1, 2008	$ 758	$ 1,036	$ 5,666	$ 4,595	$ 7,946	$ 923	$ 190	$ 21,114
Additions	-	23	1,294	1,104	3,667	-	35	6,123
Acquisitions through business combinations			8	49	65			122
Disposals	(122)	(280)	-	-	-	-	(69)	(471)
Balance at December 31, 2008	**$ 636**	**$ 779**	**$ 6,968**	**$ 5,748**	**$ 11,678**	**$ 923**	**$ 156**	**$ 26,888**
Balance at January 1, 2009	$ 636	$ 779	$ 6,968	$ 5,748	$ 11,678	$ 923	$ 156	$ 26,888
Additions	30	383	1,591	501	1,530	-	-	4,035
Acquisitions through business combination	182	842	241	379	3,826	-	64	5,534
Disposals	(6)	(106)	(22)	-	(3)	-	(33)	(170)
Balance at December 31, 2009	**$ 842**	**$ 1,898**	**$ 8,778**	**$ 6,628**	**$ 17,031**	**$ 923**	**$ 187**	**$ 36,287**
Depreciation and impairment losses								
Balance at January 1, 2008	$ -	$ 217	$ 1,678	$ 2,142	$ 4,031	$ 827	$ 78	$ 8,973
Depreciation for the period	-	39	641	602	1,314	29	36	2,661
Disposals	-	(35)	-	-	-	-	(36)	(71)
Balance at December 31, 2008	**$ -**	**$ 221**	**$ 2,319**	**$ 2,744**	**$ 5,345**	**$ 856**	**$ 78**	**$ 11,563**
Balance at January 1, 2009	$ -	$ 221	$ 2,319	$ 2,744	$ 5,345	$ 856	$ 78	$ 11,563
Depreciation for the period	-	53	811	674	1,565	20	40	3,163
Disposals	-	(33)	(6)	-	(2)	-	(28)	(69)
Balance at December 31, 2009	**$ -**	**$ 241**	**$ 3,124**	**$ 3,418**	**$ 6,908**	**$ 876**	**$ 90**	**$ 14,657**
Carrying amounts								
Balance at December 31, 2008	$ 636	$ 558	$ 4,649	$ 3,004	$ 6,333	$ 67	$ 78	$ 15,325
Balance at December 31, 2009	$ 842	$ 1,657	$ 5,654	$ 3,210	$ 10,123	$ 47	$ 97	$ 21,630

NOTE 10 BUSINESS ACQUISITIONS

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase. The allocation of purchase price is based on consideration paid and acquisition costs incurred up to the end of the current reporting period, and may be adjusted based on the outcome of contingent consideration and future acquisition related costs.

During the year ended December 31, 2009, the Company acquired all the outstanding shares of:

- Bakes-Jarvie Insurance Brokers Ltd., an insurance brokerage, in Nanaimo, BC (effective January 1, 2009)
- AgriFinancial Canada Corp. ("AgriFinancial") in Winnipeg, MB (effective January 30, 2009)
- Hayhurst Elias Dudek Inc. ("HED") in Winnipeg, MB (effective October 1, 2009).

The Company also acquired certain assets of First Alta Agencies Ltd., an insurance brokerage (effective April 1, 2009).

During the year ended December 31, 2008, the Company acquired all the outstanding shares of the following insurance brokerage businesses:

- Southern Insurance Management Inc. in Lethbridge, AB (January 1, 2008)
- Simpson Insurance Ltd. in Trochu, AB (May 1, 2008)
- Woodland Insurance Agencies in Grande Cache, AB (May 1, 2008)
- Vet's Insurance & Consultants Ltd. in Coleman, AB (July 1, 2008)
- Dunn Realty and Insurance Ltd. in Wolseley, SK, Glenavon, SK and Cold Lake, AB (July 1, 2008)
- Boyd Agencies Ltd. in Prince Albert, SK (August 1, 2008)

The Company also acquired an additional 24% of Hayhurst Elias Dudek Inc.

	2009				2008
	Insurance Brokerages	AgriFinancial	HED	Total	Total
Assets and liabilities acquired at fair value are as follows:					
Cash and cash equivalents	$ 390	$ 3,721	$ 26,739	$ 30,850	$ 258
Other investments	50	-	11,572	11,622	-
Other assets	265	446	13,919	14,630	1,143
Capital assets	42	532	4,960	5,534	122
Mortgages, loans and leases	-	79,041	-	79,041	-
Intangible assets	1,782	5,770	33,260	40,812	2,092
Accounts payable and accrued liabilities	(491)	(2,709)	(22,839)	(26,039)	(1,330)
Debt (1)	-	(69,852)	(1,094)	(70,946)	-
Corporate taxes payable	(73)	-	(103)	(176)	(20)
Due to policyholders	-	-	(18,253)	(18,253)	-
Future taxes receivable (payable)	(232)	(1,061)	(8,728)	(10,021)	(410)
	1,733	15,888	39,433	57,054	1,855
Cash and cash equivalents acquired	(390)	(3,721)	(26,739)	(30,850)	(258)
	1,343	12,167	12,694	26,204	1,597
Goodwill arising from acquisitions	5,463	7,899	29,558	42,920	7,094
Shares issued	-	-	(5,500)	(5,500)	-
Consideration in cash	$ 6,806	$ 20,066	$ 36,752	$ 63,624	$ 8,691

(1) On closing of the AgriFinancial purchase, debt was replaced by customer deposits raised at the Bank.

The allocation between goodwill and intangibles is subject to final valuation. Of the total amount assigned to goodwill and intangibles, $1,743 (2008 - $64) is deductible for tax purposes. Goodwill in the amounts of $105,641 (2008 - $89,499) and $11,478 (2008 - $3,136) have been attributed to the Network and Bank West segments, respectively (Note 23).

NOTE 11 GOODWILL

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment at least annually by comparing the fair value of each reporting unit to its carrying value. When the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its fair value. The fair value of a reporting unit is estimated using revenue, earnings, and asset multiples that have been observed in the relevant industry. There were no write-downs of goodwill due to impairment during the years ended December 31, 2009 and 2008.

	2009	2008
Balance, beginning of year	$ 105,285	$ 98,165
Arising from acquisitions	$ 42,920	$ 7,094
Other net additions	-	26
Balance, end of year	$ 148,205	$ 105,285

NOTE 12 INTANGIBLE ASSETS

Intangible assets related to the Company's acquisitions are recorded at their fair value at acquisition. Intangible assets are amortized to income over the following periods during which management believes the assets will benefit the Company on a straight-line basis:

- Customer relationships — 30 and 15 years
- Dealer relationships — 20 years
- Customer Credit Card Relationships — 10 years
- Customer Loan Relationships — 5 years
- Trade Name(s) — Indefinite Life
- Proprietary Processes — Indefinite Life
- Non-compete Agreements — 1 year upon departure of key personal
- Favourable Lease(s) — over term of lease

Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. There were no write-downs of intangible assets due to impairment during the years ended December 31, 2009 and 2008.

	2009				2008			
	Cost	Accumulated Amortization	Net Book Value	Net Additions	Cost	Accumulated Amortization	Net Book Value	Net Additions
Customer Relationships	$ 62,243	$ 4,254	$ 57,989	$ 31,262	$ 29,660	$ 2,934	$ 26,726	$ 830
Customer Credit Card Relationships	2,583	237	2,346	2,347	-	-	-	-
Customer Loan Relationships	2,210	857	1,353	83	1,694	424	1,270	-
Dealer Relationships	1,270	58	1,212	1,212	-	-	-	-
Trade Name(s)	3,040	37	3,003	3,003	-	-	-	-
Proprietary Processes	410	-	410	410	-	-	-	-
Non-Compete Agreements	290	2	288	288	-	-	-	-
Favourable Lease(s)	120	2	118	118	-	-	-	-
	$ 72,166	$ 5,447	$ 66,719	$ 38,723	$ 31,354	$ 3,358	$ 27,996	$ 830

NOTE 13 ACCOUNTS RECEIVABLE

The Company's accounts receivable are measured at cost or amortized cost, except for long term receivables which have been designated as AFS and are measured at fair value.

The Company has recorded contingent commissions receivable of $nil (2008 - $190) with respect to policies written through Lloyds of London. These amounts may not be received for up to five years from the year in which the policy is written. Actual amounts received may vary from estimates initially recorded, based on actual claims made and administrative expenses incurred as subsequently advised by the insurer. This receivable has been written off in 2009.

NOTE 14 CUSTOMER DEPOSITS

Customer deposits are comprised of demand deposits and guaranteed investment certificates ("GICs") denominated in Canadian currency, with fixed maturities not exceeding 5 years from date of deposit. Canada Deposit Insurance Corporation ("CDIC") insures these deposits to the extent of $100 (2008 - $100) per Canadian resident, per account, subject to various terms and conditions. The uninsured portion is 0.16% (2008 - 0.51%) of the total portfolio.

2009	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Total
Businesses	$ 5,438	$ 466	$ 366	$ 267	$ -	$ 6,537
Individuals	131,579	95,303	77,372	8,101	197	312,552
	137,017	95,769	77,738	8,368	197	319,089
Deferred commissions						(1,136)
						$ 317,953

2008	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Total
Businesses	$ 1,698	$ 1,505	$ 326	$ 338	$ 151	$ 4,018
Individuals	134,315	65,465	78,593	43,718	8,471	330,562
	136,012	66,970	78,920	44,056	8,622	334,580
Deferred commissions						(1,451)
						$ 333,130

Commissions are paid to deposit agents for providing the Bank with referral business. These commissions are amortized over the life of the underlying deposits using the effective interest method. Guaranteed investment certificate ("GIC") interest payable and GIC commissions payable are recorded as accounts payable and accrued liabilities. GIC commissions payable are paid out monthly. Interest is accrued daily and paid upon maturity of the deposits or annually.

NOTE 15 POLICY LIABILITIES

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial reserves are adequate to pay future benefits, the actuary is required to include in each assumption a range of allowable margins prescribed by the Canadian Institute of Actuaries ("CIA").

Western Life maintains margins near the middle of the allowable range as prescribed by the CIA. In total, the margin comprises 20% (2008 - 18%) of the policy liabilities of $10,200 (2008 - $8,200).

Policy liabilities are comprised of:

		2009		2008
Actuarial liabilities	$	40,032	$	38,256
Provision for unpaid and unreported claims		13,919		8,510
Total policy liabilities	$	53,951	$	46,766

Actuarial liabilities are comprised of the following amounts for each significant line of business:

		2009		2008
Individual Life	$	34,062	$	32,173
Group Life		2,339		2,144
Annuities		881		900
Accident and Sickness		2,750		3,039
	$	40,032	$	38,256

Actuarial liabilities are determined by the Appointed Actuary using the Canadian Asset Liability Method ("CALM") and represent the amount which, together with future policy premiums and investment income, will be sufficient to meet future benefits and expenses. To determine the actual liabilities, the Appointed Actuary used the accepted actuarial practice involving the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of withdrawal. The process of determining actuarial liabilities necessarily involves the risk that actual results may vary from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

Each assumption is determined based on expected experience plus a margin. The margin provides for uncertainty in establishing expected experience and to allow for possible deterioration in experience. The additional reserve resulting from using assumptions which include these margins is referred to as the provision for adverse deviations. The provision will be included in future income to the extent it is not required to cover adverse experience.

The nature and method of determining the significant assumptions made in the computation of actuarial liabilities are described below, which have not changed from prior year.

- ***Mortality and morbidity rates*** - Estimates of future mortality and morbidity rates are based on Western Life's and industry experience over extended periods.
- ***Investment yields*** - Assumptions regarding future investment yields are based on current yield rates, adjusted to reflect uncertainties associated with projections of future interest rates and market rates.
- ***Expense levels*** - Future expense assumptions are based on Western Life's past experience and projections for the future.
- ***Rates of withdrawal*** - Policyholders may lapse their policies by discontinuing premium payments or surrender their policies for the cash surrender value. Estimates of future rates of withdrawal are based on previous Western Life experience augmented by industry experience.

Assets supporting actuarial liabilities

	2009				2008			
	Bonds	Shares	Other	Total	Bonds	Shares	Other	Total
Non-participating								
Individual Life	$ 35,952	$ -	$ 540	$ 36,492	$ 34,905	$ -	$ 596	$ 35,501
Group Life	2,456	-	-	2,456	2,251	-	-	2,251
Individual Annuity	925	-	-	925	945	-	-	945
Accident and Sickness	2,887	-	-	2,887	3,191	-	-	3,191
	42,220	-	540	42,760	41,292	-	596	41,888
Claim liabilities	11,348	-	1,625	12,973	8,660	-	1,119	9,779
Other, including capital surplus	13,419	3,630	7,536	24,585	4,370	9,882	8,973	23,225
Total Book Value	$ 66,987	$ 3,630	$ 9,701	$ 80,318	$ 54,322	$ 9,882	$ 10,688	$ 74,892
Total Fair Value	$ 66,987	$ 3,630	$ 9,701	$ 80,318	$ 54,322	$ 9,882	$ 10,688	$ 74,892

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of assets are essentially offset by changes in the fair value of actuarial liabilities.

Change in actuarial liabilities

	2009	2008
Balance, beginning of year	$ 38,256	$ 38,042
Normal change	1,606	1,943
Change in actuarial assumptions	170	(1,729)
Balance, end of year	$ 40,032	$ 38,256

NOTE 16 DEBT

	2009	2008
Bank loans provided by a Canadian chartered bank, authorized to a maximum of \$70,000 (2008 - \$40,000) repayable at \$774 (2008 - \$477) per month plus interest, at bank prime rate plus 2.75% (2008 - prime plus 1.50%) per annum. The effective rate of interest at December 31, 2009 was 4.99% (2008 - 5.00%).	\$ 62,167	\$ 37,140
16,710 ***convertible unsecured subordinated debentures***, interest payable semi-annually at 12% per annum with a maturity date of June 30, 2014.	15,535	-
Variable rate demand mortgage, repayable at \$12 per month including interest at commercial mortgage prime rate plus .50%	1,059	-
Unsecured subordinated notes, interest payable semi-annually at 12% per annum. Redeemable by the Company after March 1, 2010. Subsequent to year end the Company repaid these notes (Note 28).	995	973
Finance contracts repayable at \$1.9 (2007 - \$1.9) per month including interest at 0% - 6.79% per annum. Security provided consists of certain automotive assets.	15	38
	\$ 79,771	\$ 38,151

Bank Loans

The repayment of the bank loans is dependent upon annual renewal. If the bank elects not to renew, all amounts will be repayable over two years. Collateral provided for the bank loans, as well as the overdraft lending facility and an operating facility, consists of a \$100 million debenture charging all of the Company's assets including a registered first charge over all real property, a general assignment of book debts, a pledge of all shares of each subsidiary excluding Bank West and Western Life, an unlimited guarantee from each subsidiary excluding Bank West and Western Life, each supported with a general security agreement and a general assignment of book debts.

Convertible Unsecured Subordinated Debentures

During the year, the Company completed a convertible debenture financing by way of private placement and as a result issued \$16,710 aggregate principal amount of convertible unsecured subordinated debenture. These debentures bear a coupon of 12% payable semi-annually in arrears, and mature on June 30, 2014. The debentures are convertible by the holder into common shares of the Company at a conversion price of \$3 per common share, subject to adjustment. The debentures are redeemable by the Company after April 21, 2012 and prior to maturity under various conditions at prices ranging from 100% to 102% of par value.

Convertible subordinated debentures are classified as other financial liabilities and are measured at amortized cost. They are recorded in part as debt and in part as equity. The equity component represents the value attributed to the holder's option to convert the principal balance into common shares and is included in other paid in capital. When the debentures are converted to common shares, the equity component is reduced with a corresponding increase to share capital. The equity component of the debentures will be accreted over the term of the debentures through a charge to interest expense and an increase to the liability such that the principal amount due on maturity will be equal to the carrying amount of the debenture at that time.

Estimated principal repayments of debt, assuming renewal on the same or similar terms, in each of the next five years are as follows:

2010	10,417
2011	9,406
2012	9,409
2013	9,412
2014	25,898
2015 and thereafter	16,692
	81,234
Deferred charges (Note 2)	(1,464)
	$ 79,771

NOTE 17 DUE TO POLICYHOLDERS

SecuriCan underwrites commercial property and casualty risks on behalf of HED. These policies are established to allow policyholders to insure and manage a first layer of risk while also facilitating the acquisition of insurance coverage above this level from other insurance carriers. These insurance policies pay claims up to the aggregate amount of the insurance premiums collected and are therefore recorded using the deposit method of accounting, which requires that premiums received by the SecuriCan be accounted for as a deposit liability and are recorded as due to policyholders on the balance sheet. As a result, the premiums and claims activities of the polices are not reflected in the Company's statement of income and retained earnings. Premium tax expense on these premiums is recorded in the statement of income and retained earnings. HED administers the claims adjustment function for these policies, including the payment of claims which are ultimately deducted from the balance of due to policyholders. Any excess amount in the due to policyholders account after the payment of all outstanding claims is paid as a return premium to policyholders. The funds held by the Company on behalf of policyholders are held separately from the Company's operating funds.

NOTE 18 SHARE CAPITAL

Authorized shares

- Unlimited number of **common**, without nominal or par value
- Unlimited number of **first preferred**, issuable in series
- Unlimited number of **second preferred**

Preferred share rights and privileges

- **Series 1** Preferred shares issued by the Company give the holder the right to require the Company to redeem the shares at or after a particular date for a fixed or determinable amount, and are recorded as debt. Dividends paid and accrued on such shares are expensed and included in interest on debt. All of these shares were redeemed in 2007.
- **Series 2** Preferred shares issued by the Company are convertible at the holder's option at any time into common shares at a fixed conversion price of $3.60 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $3.60 conversion price. These shares have been recorded as equity. Dividends paid and accrued are recorded against retained earnings.
- **Series 3** Preferred shares issued by the Company are convertible at the holder's option at any time into common shares at a fixed conversion price of $7.25 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $7.25 conversion price. These shares have been recorded as equity. Dividends paid and accrued are recorded against retained earnings.
- **Series 4** Preferred shares issued by the Company are convertible at the holder's option at any time into common shares at a fixed conversion price of $6.90 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $6.90 conversion price. These shares have been recorded as equity. Dividends paid and accrued are recorded against retained earnings.
- **Series 5** Preferred shares issued by the Company are convertible at the holder's option at any time into common shares at a fixed conversion price of $2.81 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $2.81 conversion price. These shares have been recorded as equity. Dividends paid and accrued are recorded against retained earnings.

	2009			2008		
Issued Common Shares	Number		Amount	Number		Amount
Balance, beginning of year	49,333	$	117,008	47,752	$	112,133
Common shares issued:						
On conversion of preferred Series 2 shares	80		287	36		130
Pursuant to stock options exercised	-		-	40		93
On conversion of debentures	-		-	1,668		4,945
Common shares cancelled under terms of an issuer bid	(46)		(109)	(163)		(399)
Costs related to conversion of debentures	-		-	-		106
Balance, end of year	49,367	$	117,186	49,333	$	117,008

	2009			2008		
Issued First Preferred Series 1 Shares, recorded as long term debt	Number		Amount	Number		Amount
Balance, beginning of year	-	$	-	-	$	-
Balance, end of year	-	$	-	-	$	-

	2009			2008		
Issued First Preferred Series 2 Shares, recorded as share capital	Number		Amount	Number		Amount
Balance, beginning of year	144	$	13,677	145	$	13,807
Converted to common shares	(3)		(287)	(1)		(130)
Balance, end of year	141	$	13,390	144	$	13,677

	2009			2008		
Issued First Preferred Series 3 Shares, recorded as share capital	Number		Amount	Number		Amount
Balance, beginning of year	250	$	23,790	250	$	23,790
Balance, end of year	250	$	23,790	250	$	23,790

	2009			2008		
Issued First Preferred Series 4 Shares, recorded as share capital	Number		Amount	Number		Amount
Balance, beginning of year	200	$	18,963	200	$	18,963
Balance, end of year	200	$	18,963	200	$	18,963

Issued First Preferred Series 5 Shares, recorded as share capital	2009 Number	2009 Amount	2008 Number	2008 Amount
Balance, beginning of year	-	$ -	-	$ -
Preferred shares issued:				
For cash	300	30,000	-	-
In conjunction with a business acquisition	55	5,500	-	-
Cost of share issue (net of tax benefit)		(1,924)	-	-
Balance, end of year	355	$ 33,576	-	$ -

TOTAL SHARE CAPITAL	2009 Amount	2008 Amount
Common shares	$ 117,186	$ 117,008
Preferred shares	89,719	56,430
Balance, end of year	$ 206,905	$ 173,438

Escrowed Shares

Common shares issued as consideration for certain business acquisitions are subject to certain escrow provisions that restrict their trading. As at December 31, 2009, 129 (2008 - 214) shares were being held in escrow for periods up to 5 years.

Issuer Bid

March 6, 2009, the Company announced a normal course issuer bid commencing March 10, 2009 and ending upon the earliest of the completion of the bid and March 9, 2010. Under the program, the Company could purchase, for cancellation, up to 2,467 common shares, representing approximately 5% of the amount outstanding on March 3, 2009.

During 2009, the Company purchased and cancelled 46 (2008 – 163) common shares for cash of $82 (2008 - $420).

NOTE 19 CAPITAL MANAGEMENT

The objective of the Company's capital management policy is to maintain adequate levels of capital in order to meet regulatory capital requirements of its regulated subsidiaries, to support ongoing business and safeguard its ability to continue as a going concern so that it can continue to provide services to its customers and provide a return on its investments to its shareholders.

The Company's capital management framework is designed to:

- maintain adequate levels of capital in order to build long-term shareholder value;
- meet regulatory capital requirements of the Company's regulated subsidiaries;
- maintain leverage targets determined by the Board of Directors; and,
- support internal capital needs including funding of future business acquisitions.

Capital is comprised of common share capital, preferred share capital, contributed surplus, other paid in capital, and retained earnings. Regulatory capital includes the addition of subordinated debentures if certain thresholds are met, and is calculated based on the requirements of the regulations that are applicable to the particular business.

The Company maintains capital levels above required needs to take account of normal business growth and increased volatility and uncertainty in current market conditions.

a) Bank West

The Office of the Superintendent of Financial Institutions Canada ("OSFI") requires banks to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the deemed credit risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is then calculated and compared to OSFI's standards for Canadian financial institutions. Off-balance sheet assets, such as the notional amount of derivatives and some credit commitments, are included in the calculation of risk-weighted assets. The credit risk equivalent and the risk-weighted calculations are prescribed by OSFI.

The current Basel II regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%; 4% of this must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). OSFI has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. OSFI has also established an Assets to Regulatory Capital Multiple, which should not exceed a maximum level prescribed by OSFI, which varies from institution to institution.

		2009		2008
Tier 1 Capital				
Retained earnings (losses)	$	(1,938)	$	(1,604)
Capital stock		69,112		26,112
Less goodwill		(11,477)		(3,578)
Total		55,697		20,930
Tier 2 Capital				
Subordinated debentures		3,000		10,753
Total Regulatory Capital	**$**	**58,697**	$	31,683
Regulatory Capital to Risk-Weighted Assets				
Tier 1 Capital		17.7%		9.9%
Tier 2 Capital		1.0%		5.0%
Total Regulatory Capital Adequacy Ratio		**18.7%**		14.9%
Assets to Regulatory Capital Multiple		**6.9**		11.7

During the 4th quarter of 2009, the Bank's capital ratio did not meet the internal target capital level agreed with OSFI, although the capital ratio remained in excess of 10%. In December 2009, the Bank issued a subordinated note for $3,000 to the Company which qualifies at Tier 2 capital. As at December 31, 2009, the Bank was in compliance with the internal target capital level.

The Bank's capital management and regulatory compliance is monitored by the Board through its Audit and Risk Management Committee. The Board reviews and approves the securities portfolio management polices and lending policies based on the recommendation of the Audit and Risk Management Committee and of ALCO. The investment strategy, holdings, limits and performance are monitored monthly by ALCO. ALCO meets on a weekly basis to review and assess Internal Capital Adequacy Assessment Process (ICAAP) reports, and address any risk management shortcomings that might be identified. Quarterly, management provides a detailed report of the loan, investment and securities portfolios and their performance. The Audit and Risk Management Committee reviews the securities portfolio and any non-compliance with the Bank's internal auditor on a quarterly basis. The Bank has established a process to ensure that the required capital level is maintained.

b) Western Life

The regulatory Minimum Continuing Capital and Surplus Requirements ("MCCSR") rules, set by OSFI, contain detailed instructions for determining the amount of regulatory capital that a life insurance company is required to maintain in respect of its business activities. Companies are required to maintain an MCCSR ratio of at least 150%. Western Life monitors its MCCSR on a quarterly basis and was in compliance with these requirements throughout the year.

Coupled with monitoring its MCCSR, the Company performs a Dynamic Capital Adequacy Test ("DCAT"), as part of the annual business plan and budgeting process. The DCAT tests various financial scenarios and their potential impact on Western Life's capital and solvency. The 2009 DCAT performed by the Appointed Actuary, dated October 27, 2009, reported no solvency concerns.

c) SecuriCan

SecuriCan is subject to regulation by OSFI. OSFI requires Canadian property and casualty insurance companies to maintain a level of capital sufficient to achieve a target of 150% based on a Minimum Capital Test (MCT) ratio. As at December 31, 2009, SecuriCan's MCT was in compliance with the minimum capital required.

NOTE 20 COMPENSATION

a) Stock Option Plan

The Company uses the fair-value-based method of accounting for stock-based compensation applying to options issued for years beginning in 2003. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes valuation model. This value is recorded as a charge to net income, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. Any consideration paid by employees is credited to share capital when the option is exercised, and the corresponding amount of fair value previously recorded in contributed surplus is transferred to share capital.

The Company has a rolling stock option plan under which it may grant options to directors, officers, employees and consultants for up to 4% of the issued and outstanding shares to an aggregate maximum of 4% of the issued and outstanding common shares. The option price is equivalent to the share market price on the date granted.

	2009			2008		
	Stock Options		Weighted Average Exercise Price	Stock Options		Weighted Average Exercise Price
Outstanding, beginning of year	668	$	3.69	320	$	3.15
Granted	128		2.00	388		4.03
Exercised	-		-	(40)		2.56
Cancelled	(50)		3.82	-		-
Expired	(101)		2.73	-		-
Outstanding, end of year	645	$	3.50	668	$	3.69
Exercisable, end of year	392	$	3.60	280	$	3.24
Available to grant, end of year	1,330			932		

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2009.

Exercise Price Range	**Number Outstanding**	Weighted Average Remaining Life		Weighted Average Exercise Price	**Number Exercisable**		Weighted Average Exercise Price
$1.00 - $1.99	73	4.38 years	$	1.70	-	$	-
$2.00 - $2.99	103	2.56 years	$	2.30	103	$	2.30
$3.00 - $3.99	78	1.44 years	$	3.18	61	$	3.09
$4.00 - $4.99	391	3.18 years	$	4.22	228	$	4.33
	645				392		

During the year, the Company granted 128 (2008 - 388) options to purchase common shares at an exercise price of $1.70 and 2.47 (2008 - $4.06 and $3.52), which was equal to or greater than the market value of the shares on the date granted. The following table summarizes information about stock options granted during the year.

Number granted		Market price		Exercise price		Fair Value
73	$	1.70	$	1.70	$	2.60
5	$	1.70	$	1.70	$	2.60
50	$	2.47	$	2.47	$	2.60
128						

The Company has recorded $59 (2008 - $157) as compensation expense and contributed surplus, in respect of options vested during the year, based on a fair value determination estimated using the Black-Scholes option pricing model. Under the fair value method, the value of stock options at the grant date that have vested during the year are estimated using the Black-Scholes option pricing model using the following assumptions:

	2009	2008
Expected option life (years)	3.7 - 5 years	3 - 5 years
Risk free rate	2.01% - 2.15%	3.13% - 3.37%
Expected stock volatility	44%	31%
Dividend yield	4%	1%

b) Employee Share Ownership Plan

The Company participates in an Employee Share Ownership Plan ("the Plan") which enables substantially all employees to purchase common stock of the Company. Eligible employees make personal contributions to the Plan up to 5% of their earnings which are matched by the Company. Personal and Company matching contributions are used to acquire common stock in the Company at market prices. All acquisitions are for shares currently issued and there is no commitment under the plan for the Company to issue additional shares. The matching contribution made by the Company of $2,470 (2008 - $2,307) is being amortized over the vesting period of the shares, commencing in the month of contribution.

c) Pension Plans and Other Post Retirement Benefits

Western Life

Western Life has established defined contribution pension plans for eligible qualifying employees. These funds are held in trust and are not recorded in these financial statements. Contributions by Western Life to these defined contribution pension plans are subject to certain vesting requirements. Western Life contributions, set as a percentage of the employee's annual income, were $72 (2008 - $78).

SecuriCan

SecuriCan maintains a defined contribution pension plan for qualifying employees. The contributions are subject to certain vesting requirement. These funds are held in trust and are not recorded in these financial statements. The expense for the period ended December 31, 2009 was $81 (2008 - $77). As a defined contribution pension plan, SecuriCan has no further liability or obligation for future contributions to fund future benefits of plan members.

NOTE 21 INCOME TAXES

Income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes and are limited to the amount that is more likely than not to be realized. The tax rate substantively enacted when these temporary differences are anticipated to reverse is used to calculate future income taxes.

		2009		2008
Future income taxes (recovery)	$	(2,943)	$	(230)
Current income taxes		4,953		3,872
	$	2,010	$	3,642

The Company's actual income tax expense differs from the expected income tax expense as follows:

	%		2009	%		2008
Expected income tax expense	29	$	5,212	30	$	3,065
Non-deductible expenses	1		263	7		688
Non-taxable income	(9)		(1,658)	(3)		(266)
Use of prior year non-capital loss	(4)		(800)	(2)		(252)
Income tax rate and other adjustments	(6)		(1,007)	4		407
	11	$	2,010	36	$	3,642

The major components of the future income tax asset and future income tax liability using the combined federal and provincial effective tax rates at the anticipated average rate reversal of 25% (2008 - 27%) are as follows:

Future income tax asset		2009		2008
Leases	$	1,559	$	-
Non capital losses		47		638
Capital assets		187		114
Loan loss provision		139		51
Goodwill and intangibles		(830)		(264)
	$	1,102	$	539

Future income tax liability	**2009**	**2008**
Capital assets and other assets	$ 102	$ 1,175
Goodwill and intangibles	14,029	5,212
Deferred charges and share issue costs	(546)	(980)
Non capital losses	(351)	-
Allowance for credit losses	(134)	(111)
Actuarial liabilities	(893)	(963)
Deferred gains (losses)	992	1,147
	$ 13,199	$ 5,480

The Company has the following non-capital losses available for use in the future.

Non-capital loss	**Expires**
$ 162	2027
$ 1,254	2029
$ 1,416	

A valuation allowance is recorded in respect of future income tax assets when the Company believes it is more likely than not that some or all of the future tax assets will not be realized. After consideration of a number of factors including estimates of future taxable income and potential business strategies, the Company has determined that a valuation allowance is not required.

NOTE 22 EARNINGS PER SHARE

December 31, 2009		Income	Shares		Per share
Earnings per share from continuing operations					
Net income	$	15,961			
Preferred share dividends		(5,001)			
Net income available to common shareholders		10,960			
Basic earnings per share		**10,960**	**49,373**	**$**	**0.22**
Effect of dilutive securities					
Stock options		-	11		
Diluted earnings per share	**$**	**10,960**	**49,384**	**$**	**0.22**

December 31, 2008		Income	Shares		Per share
Earnings per share from continuing operations					
Net income	$	6,548			
Preferred share dividends		(3,914)			
Net income available to common shareholders		2,634			
Basic earnings per share	**$**	**2,634**	**48,665**	**$**	**0.05**
Effect of dilutive securities					
Stock options		-	52		
Diluted earnings per share	**$**	**2,634**	**48,717**	**$**	**0.05**

At December 31, 2009, convertible redeemable series 2, 3, 4 and 5 preferred shares and convertible debentures were not included in the computation of diluted earnings per share because the impact was anti-dilutive. At December 31, 2008, convertible redeemable series 2, 3, and 4 preferred shares were not included in the computation of diluted earnings per share because the impact was anti-dilutive.

NOTE 23 SEGMENTED INFORMATION

The Company has five (2008 – four) reportable segments: insurance brokerage, banking services, life insurance, pet insurance, and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through the Network. The banking services segment provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through the Bank. The life insurance segment offers a range of disability products along with group life and health through the Network and other distribution channels. The pet insurance segment offers dog and cat insurance products which provide pet owners with insurance coverage for various pet health related costs.

The results of these business segments are based on the internal financial reporting systems of the Company. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

Management monitors the financial performance of the Network based on operating income and customer accounts receivable. The operations of the Bank, Western Life and SecuriCan are monitored based on net income before income tax; the financial position is monitored based on net assets used in that segment as reported in the financial statements of the Bank, Western Life and SecuriCan.

Because of the integrated nature of the Company's operations, all other assets, including intangibles and goodwill, are managed and reported at a corporate level. Goodwill is, however, allocated to reporting units within each segment for purposes of impairment testing. All amortization expense and interest on long term debt is recorded as a corporate expense.

2009	Network	Bank West	Western Life Assurance	SecuriCan General Insurance	Corporate and all other	Total
REVENUE						
Commission and other customer income	$ 89,135	$ 768	$ 92	$ 470	$ 1,075	$ 91,540
Premium income	-	-	37,399	8,505	-	45,904
Interest income on customer loans	-	24,556	-	-	-	24,556
Investment income (loss)	9	190	3,200	102	575	4,076
	89,144	25,514	40,691	9,077	1,650	166,076
EXPENSES						
Operating expenses	63,261	8,249	15,565	3,052	9,692	99,819
Policyholder benefits	-	-	20,123	3,951	-	24,074
Interest expense - customer deposits	-	15,165	-	-	-	15,165
Provision for credit losses	-	2,645	-	-	-	2,645
Income before the following:	25,883	(545)	5,003	2,074	(8,042)	24,373
Income from equity investments	-	-	-	-	2,859	2,859
(Loss) gain on sale of investments and capital assets	-	2	-	59	237	298
Interest and financing costs on long-term debt	(4)	-	(13)	-	(4,291)	(4,308)
Amortization of intangible assets	(225)	(728)	-	-	(1,135)	(2,088)
Amortization of capital assets	(1,169)	(386)	(85)	(114)	(1,409)	(3,163)
Income before income taxes	$ 24,485	$ (1,657)	$ 4,905	$ 2,019	$ (11,781)	$ 17,971
Total assets	$ 97,863	$ 397,461	$ 80,152	$ 62,048	$ 178,851	$ 816,375
Goodwill	$ 105,641	$ 11,478	$ -	$ -	$ 31,085	$ 148,204

2008	Network	Bank West	Western Life Assurance	SecuriCan General Insurance	Corporate and all other	Total
REVENUE						
Commission and other customer income	$ 75,421	$ -	$ 69	$ -	$ 1,161	$ 76,651
Premium income	-	-	31,240	-	-	31,240
Interest income on customer loans	-	18,596	-	-	-	18,596
Investment income (loss)	3	-	(891)	-	(744)	(1,632)
	75,424	18,596	30,418	-	417	124,855
EXPENSES						
Operating expenses	54,710	3,868	13,907	-	9,222	81,707
Policyholder benefits	-	-	14,789	-	-	14,789
Interest expense - customer deposits	-	12,555	-	-	-	12,555
Provision for credit losses	-	936	-	-	-	936
Income before the following:	20,714	1,237	1,722	-	(8,805)	14,868
Income from equity investments					2,172	2,172
Gain (loss) on sale of investments and capital assets	-	(6)	-	-	1,269	1,263
Impairment on equity investment	-	-	-	-	(2,053)	(2,053)
Interest and financing costs on long-term debt	-	-	(15)	-	(2,122)	(2,137)
Amortization of intangible assets	-	(339)	-	-	(923)	(1,262)
Amortization of capital assets	(975)	(187)	(211)	-	(1,288)	(2,661)
Income before income taxes	$ 19,739	$ 705	$ 1,496	$ -	$ (11,750)	$ 10,190
Total assets	$ 55,628	$ 377,011	$ 74,876	$ -	$ 170,105	$ 677,620
Goodwill	$ 89,499	$ 3,136	$ -	$ -	$ 12,650	$ 105,285

During 2009, two companies individually comprise 24% (2008 – 32%) and 12% (2008 – 18%) of total commissions earned in the Network segment.

NOTE 24 RELATED PARTY TRANSACTIONS

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

- Dividend income on preferred shares of $20 (2008 - $188) and income from equity investments of $570 (2008 – loss of $920) were recorded with respect to the Company's investment in Jennings Capital Inc., a corporation in which a director holds an interest.
- Notes receivable of $1,890 (2008 - $1,680) due from Jennings Capital Inc. These notes receivable are non-interest bearing and due on demand. Repayment of these notes has been postponed and they are subordinated to all other debt of Jennings.
- Underwriting fees of $184 (2008 - nil) were paid to Jennings Capital Inc., in connection with their participation in the Company's Preferred Share Offerings.
- Premiums of $128 (2008 - $98) were received from Jennings Capital Inc.
- During 2009, short term loans and advances of $nil (2008 - $300) were made to an officer of the Company supported by a share pledge agreement and a promissory note. The balance of these short term loans and advances at December 31, 2009 was $225.
- Commissions of $1,191 (2008 - $225) were paid to Hayhurst Elias Dudek Inc. prior to October 1, 2009.
- Premiums of $7,188 (2008 - $1,297) were received from Hayhurst Elias Dudek Inc. prior to October 1, 2009.

NOTE 25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain financial instruments are carried on the balance sheet at their fair value. These financial instruments include cash and cash equivalents, securities, interest rate swaps, accounts receivable, actuarial liabilities, accounts payable and accrued liabilities and debt.

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on the observable current market transactions involving the same instrument, without modification or repackaging, or is based on a valuation technique which includes inputs from observable markets and accordingly give rise to an inception profit which is recognized into income upon initial recognition of the instrument. Inception profit is the difference between the fair value that is based on a valuation technique which includes inputs from observable markets, and the fair value at initial recognition represented by transaction price. When an instrument is measured using a valuation technique that significantly utilizes non-observable market inputs, it is initially valued at the transaction price, which is considered the best estimate of fair value.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When there is no active market for the instrument, fair values are determined by using valuation techniques which use observable market inputs. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain financial instruments, fair values may be determined in whole or in part from valuation techniques using non-observable market inputs.

A number of factors such as bid-offer spread, credit profile, input parameter, and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset, or it is extinguished.

The Company calculates fair values based on the following methods of valuation and assumptions:
For certain of the Company's financial instruments, including cash, accounts receivable, accounts payable, the carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments. Securities are recorded at fair value (Note 4).

The fair value of fixed rate mortgages, loans and leases has been estimated by discounting the expected future cash flows at market rates for loans with similar terms and risks. For floating rates loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.

The fair value of customer deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

Management considers that no events have occurred subsequent to the arrangement of the credit agreement with its bank that would indicate that the fair value of bank loans differs substantially from their carrying value.

The fair value of actuarial liabilities and provisions for unpaid and unreported claims are as disclosed in Note 15. The fair value of unpaid claims and adjustment expenses is considered to approximate carrying value since an actuarial approach to discount the claims is used.

The table below sets out the fair values of financial instruments based on the methods described above. The table does not include assets and liabilities that are not considered financial instruments.

	2009			2008		
	Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value
Assets						
Cash and cash equivalents	$ 58,463	$ 58,463	$ -	$ 28,563	$ 28,563	$ -
Securities	92,274	92,274	-	156,899	156,899	-
Mortgages, loans and leases	355,621	364,434	8,813	272,135	235,914	(36,221)
Interest rate swaps	90	90	-	-	-	-
Accounts receivable	51,114	51,114	-	23,999	23,999	-
Liabilities			-			-
Customer deposits	317,953	317,386	(567)	333,130	331,371	(1,759)
Actuarial liabilities	40,032	40,032	-	38,256	38,256	-
Accounts payable and accrued liabilities	82,700	82,700	-	50,378	50,378	-
Debt	79,771	79,771	-	38,151	38,151	-

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosures about the inputs to fair value measurements, including their classification with a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data.

The following table presents the Level in the fair value hierarchy into which the fair values of financial instruments that are carried at fair value on the consolidated balance sheet are categorized:

	Financial assets at fair value as at December 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	57,678	785	-	58,463
Securities	67,660	24,614	-	92,274
Interest rate swap	90	-	-	90
	$ 67,750	$ 24,614	$ -	$ 92,364

NOTE 26 CONTINGENCIES

The Company occasionally is named as a party in claims and legal proceedings in the normal course of business. Although there can be no assurance that any particular claim will be resolved in the Company's favour, the Company, having regard to existing insurance coverage, does not expect that the outcome of claims will have a materially adverse effect on the Company as a whole.

NOTE 27 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2009	2008
Items not involving cash:		
Change in fair value of held-for-trading securities	(1,929)	64
Provision for credit losses	2,645	936
Income in equity investments	(2,859)	(230)
Gain on sale of investments and capital assets	101	(1,263)
Amortization of capital assets	3,163	2,661
Amortization of intangible assets	2,088	1,262
Future income taxes	(2,940)	413
Stock based compensation	59	126
Other non-cash expenses	(1,270)	149
	$ (941)	$ 4,118

	2009	2008
Change in non-cash operating assets and liabilities		
Accounts receivable	$ (13,259)	$ 3,786
Prepaid expenses	1,280	(2,041)
Accounts payable and accrued liabilities	5,288	(6,683)
Actuarial liabilities	1,776	214
Provision for unpaid and unreported claims	5,409	(143)
Due to policyholders	2,139	-
Policy loans	-	101
Income taxes	2,433	1,371
	$ 5,066	$ (3,395)

	2009	2008
Dividends received	$ 209	$ 664
Interest paid	$ 18,693	$ 14,842
Income taxes paid	$ 3,076	$ 2,432

NOTE 28 SUBSEQUENT EVENT

Subsequent to year end, the Company repaid $1.0 million of unsecured subordinated notes (Note 16).

CORPORATE HEADQUARTERS
WESTERN FINANCIAL GROUP INC.

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NOTICE OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of Western Financial Group will be held on May 13, 2010 at 3:30 p.m. at the Heritage Inn in High River, Alberta. Shareholders and others who are interested in the affairs of the company are welcome to attend.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Jim Dinning [1,2]
Chairman of the Board of Directors
Calgary, Alberta

Diane Brickner [1]
Edmonton, Alberta

Robert G. Jennings
Calgary, Alberta

Gregg J. Speirs [1]
Calgary, Alberta

Philip L. Webster [1]
Montreal, Quebec

Bill Yuill [2]
Vice-Chairman of the Board of Directors
Medicine Hat, Alberta

Gabor Jellinek [2]
Montreal, Quebec

Catherine A. Rogers
CFO and Corporate Secretary
High River, Alberta

Scott A. Tannas
President and CEO
High River, Alberta

[1] Member of the Audit Committee
[2] Member of the Compensation Committee

SOLICITORS

Macleod Dixon LLP
Calgary, Alberta

TRANSFER AGENT

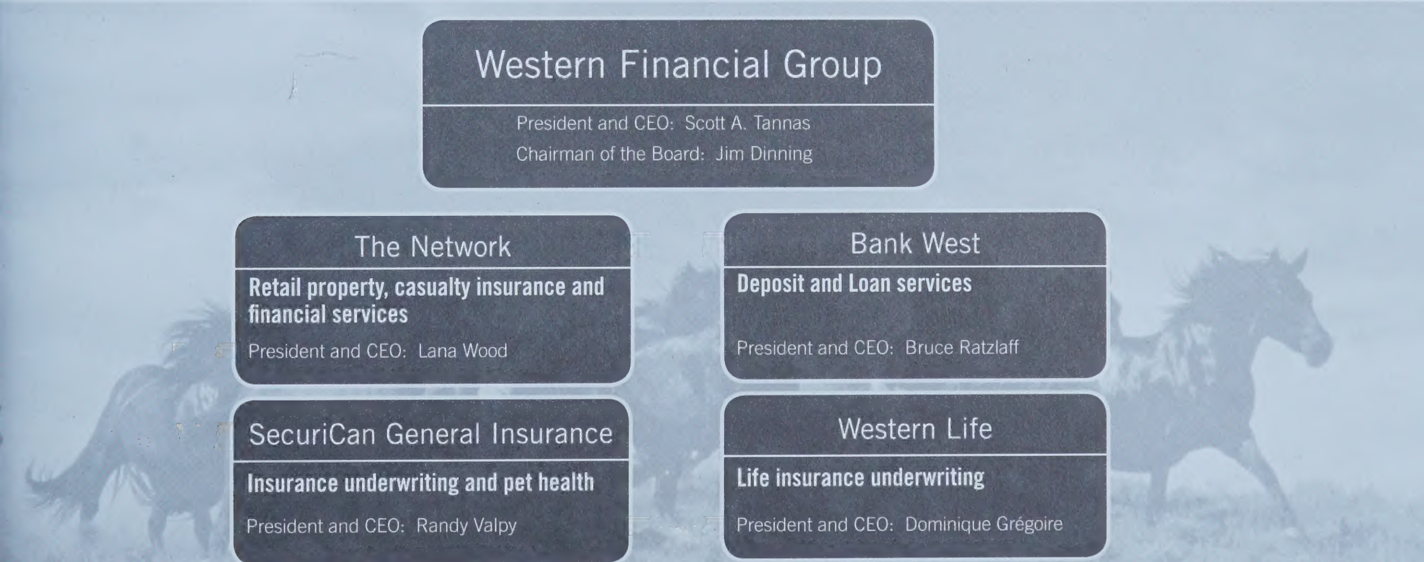
Computershare Investor Services Inc.
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers, LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: WES



Western FINANCIAL GROUP

Western LIFE ASSURANCE

Bank West

Western FINANCIAL INSURANCE

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